GLADSTONE INDUSTRY
LEADERSHIP GROUP

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Principal Commissioner Kim Wood
Queensland Productivity Commission
PO Box 12112
George Street
BRISBANE QLD 4003
via email: enquiry@qpc.qld.gov.au

Dear Commissioner Wood,

Thank you for the opportunity to provide a submission to the Queensland Productivity Commission's (QPC) inquiry into manufacturing in Queensland. This inquiry is focussed on an important element of the Queensland economy and an element that is currently under threat.

As you are aware, Gladstone Industry Leadership Group (GILG) is the peak representative organisation of Gladstone's heavy industry. GILG provides strong independent leadership of issues impacting industry in Gladstone by managing collective industry impacts and issues to ensure a sustainable long-term future for industry and Gladstone. Members of GILG represent a unique cross section of the Queensland, and indeed Australian, manufacturing sector and supply chain including the country's largest aluminium smelter, two alumina refineries, a cement plant, a chemical manufacturer, Queensland's largest port and its largest coal fired electricity generator. This mix provides a unique insight in to the manufacturing sector.

As you know, the manufacturing sector in Gladstone is trade exposed and operates in highly competitive markets with a limited ability to pass additional costs onto customers. The global competitiveness of the sector is currently challenged from high structural costs, with energy intensive processing vulnerable to high domestic energy prices. Furthermore, most global resources markets are oversupplied, with subdued prices across many key commodity markets. In this context, of enormous pressures to reduce costs, GILG's members welcome the Commission's scrutiny of the manufacturing sector and how the Queensland Government can best support this industry.

In that context GILG would like to identify a concern we have with the draft final report, specifically draft recommendation two.

GILG agrees strongly with the objectives identified in draft recommendation one, but believes that recommendation two does not go far enough in meeting those objectives. Specifically, recommendation two does not sufficiently address the cost pressure placed on manufacturing by the current electricity and gas markets.

Challenges for Wholesale Electricity Prices in Queensland

The substantial increase in wholesale market prices since 2011 is due to a range of factors including:

- Since the 2011 consolidation of three government owned generating companies into two, the market concentration of CS Energy and Stanwell is 35% and 30% respectively, and the only circumstance in Australia where these assets share a single shareholder. This concentration was compounded by mothballing of capacity at Tarong Power station in 2012;
- While, regulators have found no evidence of the generators engaging in collusive activities, the high market concentration appeared to be influencing wholesale electricity price due to greater

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market power. This market concentration has been used by generators since 2012, to engage in late rebidding when generators rebid large volumes of capacity from low to very high prices late in trading intervals.

- Spot market volatility causes a loss of confidence in the wholesale market, pushing up prices for future contracts. Compounding the impact of these strategic late rebids was the generators indulging in these strategies on days of elevated temperatures and high demand, and often when network constraints affected supply, thereby impacting on spot market prices;
- A lack of stable bipartisan renewable, climate or energy policies at a State or Federal level; and
- Higher gas prices are significantly pushing up average electricity prices, which has a cumulative impact on industry which uses both gas directly and indirectly via electricity.

Before 2012, the electricity prices in Queensland were predominantly within the short run marginal cost of black coal generators, at less than $40/MWh. Wholesale prices have doubled from ~$30/MWh in 2012 to ~ $60 / MWh in 2016, with trends between $70-$80/MWh set to continue until 2020. This change is being felt by all consumers of electricity – particularly those exposed directly to the wholesale contract market. The Queensland mining, manufacturing and commercial sectors consume more than 60% of the state's electricity. This $30/MWh increase since 2012, represents more than $1.2 B per annum increase in costs. This is the equivalent of more than 12,000 additional jobs which these sectors could otherwise contribute to the Queensland economy.

Issues Requiring Reform

While this is a complex issue, there are actions which can be undertaken. The Queensland Government, as shareholder, needs to ensure through the strategic direction it sets that:

- All competitive generation is fully available in the market to return wholesale electricity prices to a competitive margin above generation costs; and
- Government Owned Corporations operate not only within the letter of the law but with the right intent supported by good shareholder governance. Behaviour by both generators since 2012, has undermined confidence the wholesale electricity market.

We recognise and support the work that the QPC is doing to help ensure the sustainability of manufacturing in Queensland. But believe that draft recommendation two in the QPC manufacturing report must reflect downward pressure on electricity prices in Queensland for the long-term security of manufacturing in the State.

Thank you again for the chance to provide comments. I can confirm that GILG's submission is not confidential and can be published on the Commission's website. If you have any questions, or would like any further information on this submission please contact me directly on Patrick.hastings@gilg.com.au or on [redacted]

Regards,

Patrick Hastings
Chief Executive Officer
Gladstone Industry Leadership Group