INTERGEN®

InterGen (Australia) Pty Ltd

Level 26, 400 George Street
Brisbane QLD 4000
Tel: +61 7 3001 7177
Fax: +61 7 3001 7178
intergen.com
ABN: 71 080 050 767

25 November 2015

Queensland Productivity Commission
PO Box 12112
George Street
Brisbane QLD 4003

Lodged (online): www.qpc.qld.gov.au/inquiries/electricity-pricing/submission-form/

RE: Electricity Pricing in Queensland – Issues Paper

InterGen (Australia) Pty Ltd (InterGen) welcomes the opportunity to provide its views to the Queensland Productivity Commission's (QPC) Electricity Pricing in Queensland Issues Paper (Issues paper).

This Issues Paper is critical to the future of not just electricity pricing in Queensland, but to the electricity sector's future business model, investment appetite, and even its viability. **It cannot be stressed too strongly how the results of unintended consequences can so heavily distort an already fragile Queensland electricity market. The importance of ensuring this does not occur in the determination to deliver an equitable, cost reflective, pricing model is vital.**

As you would be aware, InterGen currently supplies some 17% of Queensland's electricity from its supercritical black coal generators - the 850MW Millmerran, and the 900MW Callide C (which is a joint venture with the Queensland Government's CS Energy). Millmerran is recognised as one of the most efficient and cleanest black coal generators in Australia.

We entered the Queensland market in 2001 and our majority shareholder, the China Huaneng Group, (CHG), is the world's largest generation company. Our current projects in Queensland are valued at around $2 billion and we have over 120 employees.

Our future investment decisions as they relate to Queensland are directly linked to the Queensland Government ensuring a robust and equitable market in which private sector investment in generation can operate fairly and successfully for the benefit of all Queenslanders.

We have been harmed by constant politically-driven policy change in both Queensland and nationally, which has worked to the longer-term detriment of the market as a whole.

Importantly, InterGen is one of a short list of participants in the market with the experience, desire and capital to develop, build, own and operate large scale power generation in Australia, and in particular, in Queensland.

InterGen therefore has significant interest in ensuring any changes within the Queensland market take a long-term view of what is required. **The knee-jerk politically driven decisions of previous Governments have left a deleterious tail for us to manage.**

<u>InterGen's specific comments on the Issues Paper are set out below</u>

<u>General:</u>

We are supportive of an approach to electricity pricing that establishes clear long term policy objectives rather than one that simplistically sets targets (i.e. 1 million solar households, 50% renewables by 2030 etc.)

The QPC should carefully consider the impact of any recommendations on the energy-only design structure of the National Electricity Market (NEM). Policy that subsidies one aspect of the market over another, promotes a subsidised industry heavily or preferences/dissuades a particular technology, makes it impossible for the NEM to deliver its original design purpose – that is to encourage a highly competitive market structure where individual participants operate on a level playing field.

It is InterGen's contention that ensuring the NEM operates as it was designed to should be the overlay of all QPC decisions.

This is critical because generation investments are long term and high capital cost sunk investments, and there is little ability for them to adapt to short term policy flux. Accordingly, the QPC needs to consider the long term fixed nature of generation investments and their inability to adapt to rapid change once built. **Not recognising existing investments reduces the future set of willing investors.**

<u>Regulation and Review Processes:</u>

There has been considerable regulatory and policy flux for participants in the NEM at both the State and Federal level, especially since 2006. This has created deadweight costs associated with continual change to business processes and compliance regimes (only in some cases to see subsequent policy removal).

Such costs are ultimately passed on to customers (where possible), rarely contribute to improving efficient delivery or reliability of supply, add complexity, inhibit investment signals and create higher barriers to entry for new entrants.

We would welcome an approach where governments and regulators are less, rather than more, involved in the competitive areas of the industry. This will lead to more timely investment and greater competition with benefits to all customers – in cost and security of supply - in the long term.

There will always be a place for good regulation in areas of the market where there are natural monopolies, such as poles and wires.

<u>Renewable Targets:</u>

InterGen does NOT support a State-based target.

It is InterGen's strong contention that renewable targets are better set at the national level with investment flowing to the most cost effective and efficient locations.

The Queensland Government's renewable energy target will increase capacity in an already oversupplied market and would require significant subsidies to attract investment.

Should a Queensland based target be pursued despite such explicit concerns:

- We caution against setting too aggressive a target without considering whole of market impacts, as currently evidenced in South Australia where high renewable penetration is creating a significant supply security risk.
- It should only focus on off-grid and/or edge of grid which are generally more expensive to service areas and not interfere with the more price efficient NEM delivery of energy.

<u>Electricity Pricing:</u>

Pool prices have only now begun to return to levels that reflect actual cost of delivery, with prices being predominantly driven by market factors such as improving demand. This is a natural response to an energy only market such as the NEM.

Policy intervention has increased the risks and costs of operating in the NEM. These impacts obviously flow into pricing. **Rather than an objective of lowering electricity prices, the objective should be reframed to "ensuring electricity prices are fair, reasonable and reflect cost of provision". Price is an important investment signal in the energy only NEM.**

For the NEM energy-only market to work effectively, wholesale prices must also be allowed to rise to the Market Price Cap as conditions dictate. This is essential to provide the appropriate signals related to when new generation is efficiently required (persistent high prices) or when capacity should be retired (at persistently low prices).

<u>Retail Tariffs:</u>

We support the move to price monitoring in South East Queensland.

Our ability to create our own retail business to support small business or residential customers, or support new entrant retailers in that space through wholesale contract arrangements, has been hampered significantly by the risks imposed by continual regulatory intervention and prevention of a properly functioning retail market with the ability to set cost reflective tariffs.

<u>In conclusion:</u> InterGen is supportive of the QPC's drive to deal with issues related to electricity pricing in Queensland. However InterGen has concerns that there may continue to be a lack of long-term policy setting. This would affect established investment and have the unintended consequence of a downstream effect on customers.

Yours sincerely

Brent Gunther
Managing Director
InterGen (Australia) Pty Ltd