

16 November 2015

Commissioner Kim Wood  
Queensland Productivity Commission  
PO Box 12112  
George Street  
BRISBANE QLD 4003

via email: [enquiry@qpc.qld.gov.au](mailto:enquiry@qpc.qld.gov.au)

Dear Principal Commissioner,

Thank you for the opportunity to provide a submission to the Queensland Productivity Commission's inquiry into electricity pricing in Queensland. This inquiry addresses an important and wide-ranging subject for the entire Queensland economy. Given the overlap of issues, QRC will also be making a short submission on the solar pricing inquiry later this month.

The Queensland Resources Council (QRC) would like to congratulate you on your appointment as the inaugural head of the Commission. QRC supports the establishment of the Queensland Productivity Commission as an independent economic advisory body. We look forward to engaging regularly with you and your team at the Commission.

As you are aware, the QRC is the peak representative organisation of the Queensland minerals and energy sector. QRC's membership encompasses minerals and energy exploration, production, and processing companies and associated service companies. QRC works on behalf of members to ensure Queensland's resources are developed profitably and competitively, in a socially and environmentally sustainable way.

The issues paper does a good job of setting out the operation of the electricity market in Queensland. Sprinkled throughout the issues paper are 85 different questions, many of which are highly specific and difficult for QRC to address collectively. QRC will leave it to individual members to respond to these detailed discussion questions, but we thought it would be useful to provide some overarching context on the resource industry in Queensland and the importance of efficient and globally competitive electricity prices to the industry.

The resources sector is trade exposed and operates in highly competitive markets with a limited ability to modify consumption or 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 markets.

Efficient pricing of electricity is critical to maximising the economic benefit of industrial activity to Queensland, and ensuring producers can compete in international markets. QRC estimates that the Queensland resources sector consumes approximately 22% of the state's electricity (with aluminium and zinc smelters consuming approximately 15%).

Electricity is a significant input cost, accounting for approximately 4-5% of a typical mining operation's total costs and up to 50% for a smelter. Queensland's CSG-LNG industry will add around 15% to Queensland's total electricity demand over the next three years. What is true for all resources operations is that they incur high costs from shutdowns caused by energy supply interruptions.

Ensuring key inputs like electricity remain competitive is very important for an export industry like resources. Based on data provided by QRC members, during the period 2006-2014 electricity costs increased on average 12 per cent annually, which contributed to the declining competitiveness of Queensland resource exports. QRC notes that its issues paper estimates electricity prices rose a further 50 per cent between 2011-12 and 2014-15 (page 67).

As part of that electricity price increase, network costs in Queensland have risen much more quickly than has been the case in other jurisdictions. The rapid growth in the regulated asset base of network service providers between 2010-15 has driven much of this cost increase. QRC members are not confident that these investments reflect appropriate and efficient use of capital at that time or are an appropriate benchmark for comparing future investment going forward.

The issues paper notes that these estimates of network costs exclude the costs associated with Queensland's solar bonus scheme (SBS) and instead quotes the Queensland Competition Authority's (QCA) estimate that environmental schemes like the solar bonus scheme add around 11% of a typical residential bill (of which 8% is SBS and 3% is the Australian Government's renewable energy target (RET)) (page 8). QRC suggests that these "environmental costs" for large industrial users, like many QRC members, may be an even higher percentage.

QRC also notes QCA's 2013 conclusions in their inquiry into solar feed-in tariffs that to avoid cross subsidies, these feed-in tariff schemes should be funded by electricity retailers rather than regulated network businesses. The QCA concluded (page iv):

*To be sustainable and fair to all consumers, any new scheme must be structured so that the price received for exports of electricity reflects the true, quantifiable savings and benefits that are being achieved by the installation and on-going operation of solar PV panels.*

*Surprising as it may be for some consumers, there is no magic pudding when it comes to electricity prices. If one group of consumers enjoys a benefit in excess of the true savings they make, or enjoys prices below the cost of their consumption, other electricity customers have to pay the price of those excess benefits or lower prices. When those doing the paying are likely those least able to afford it and those enjoying the benefits are those likely to be most able to afford to meet their true costs, then something is truly wrong.*

QRC endorses the QCA's findings regarding the operations of feed-in tariffs in Queensland, particularly the fact that QCA has chosen to call out the impact on all customers and not just residential customers.

QRC notes that while the objective of the Inquiry's terms of reference is focussed on "outcomes for consumers", (page 67); the reality in Queensland is many of these consumers, by volume of electricity use, are resource operations not households. Further, the scope of the terms of reference specifically calls out identifying options to deliver net benefits to the economy by consulting with a wide range of stakeholders, including industry. Unfortunately, the issues paper seems substantially focussed on residential consumers.

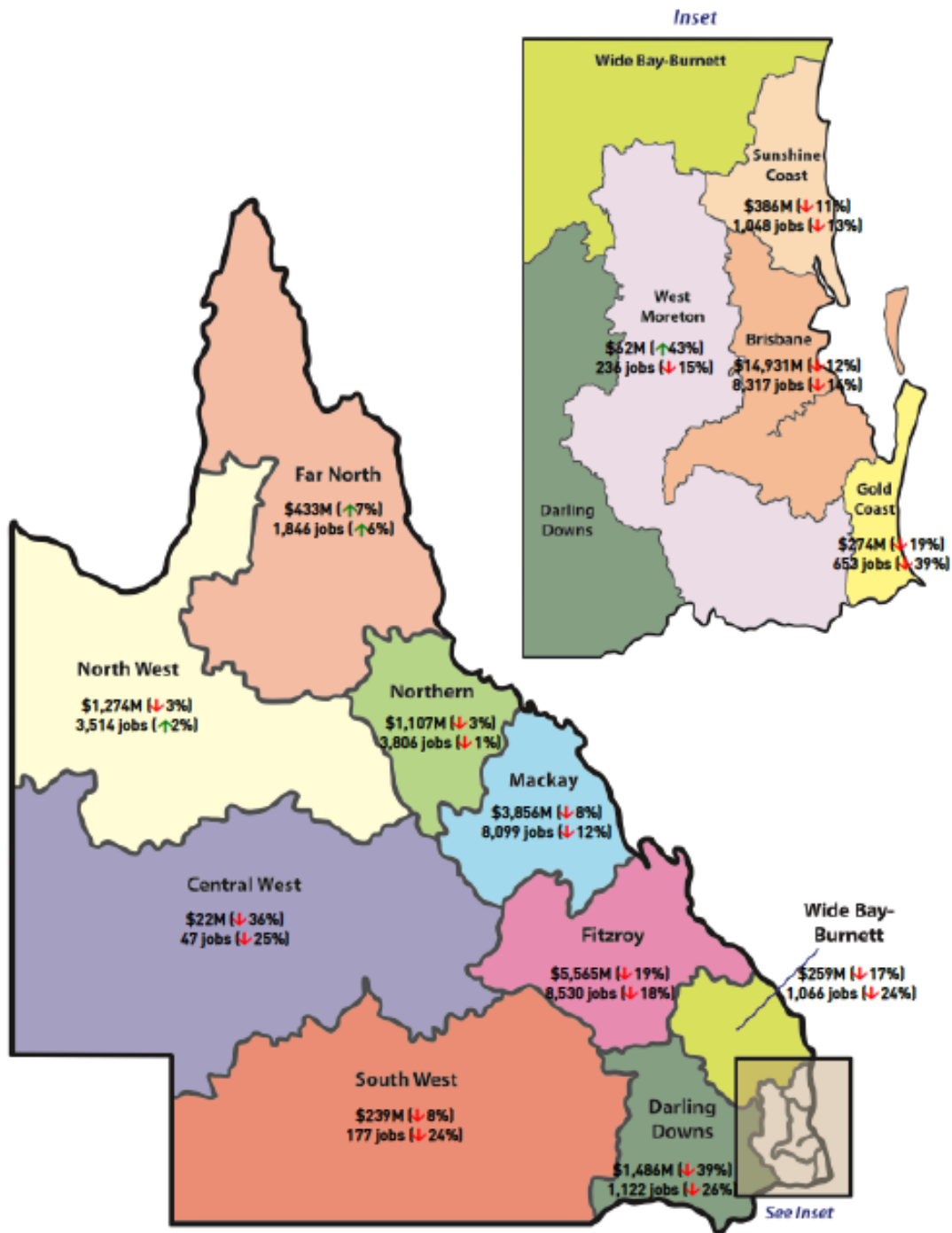
QRC would suggest that to consider the review of electricity prices only through the perspective of a residential electricity customer would be a missed opportunity and a detriment to the Queensland economy. Section 4.2 on page 47 does provide a brief discussion of farming and irrigation, but neglects to mention resources as a substantial rural/regional industry, which depends on a secure supply of competitively priced electricity. In particular, QRC draws the Commission's attention to the resource industry's economic contribution to regional and rural Queensland as described in the QRC's recently released [economic contribution data](#).

The 2014-15 economic contribution data was launched by the Treasurer at Parliament House in October and QRC would be pleased to brief the Commission on this uniquely detailed data set which is now in its sixth year.

QRC surveyed full member companies in August 2015 to identify the economic contribution of the minerals and energy sector to the Queensland economy in 2014-15. The spending data – including employee salaries and wages, business purchases, community contributions, local and state government payments – was collected by postcode where it was spent to allow local, regional and state-wide economic impacts to be assessed. QRC would welcome the opportunity to brief the Commission on this work.

The figure on the following page, gives a good overview of the ubiquitous regional importance of the resources industry to the Queensland economy.

Figure E1: Minerals and Energy Sector Direct Expenditure and Employment by Region, 2014/15



QRC would welcome the opportunity to join the Stakeholder Reference Group mentioned on page 69 to ensure that the views of the resource industry are represented in the Commission's deliberations on this inquiry. The QRC contact on this submission is Andrew Barger, who can be contacted on (07) 3316 2502 or alternatively via email at [andrewb@qrc.org.au](mailto:andrewb@qrc.org.au)

I can confirm that this submission is not confidential and the Commission is welcome to publish this submission on your website.

Yours sincerely

A handwritten signature in black ink that reads "Michael Roche". The signature is written in a cursive, flowing style.

Michael Roche  
**Chief Executive**