

24 November 2015

Mr Kim Wood
Commissioner
Queensland Productivity Commissioner

Dear Commissioner

Townsville Enterprise welcomes the opportunity to submit to the Inquiry into Electricity Pricing in Queensland.

This is an issue of great significance in North Queensland and we encourage your organisation to explore all avenues possible to result in a lower price of energy for households and businesses alike.

The price rises and (resultant) uncertainty seen in recent years, while difficult to quantify, have undoubtedly hampered the economic performance of the region.

Every sector of our regional economy - from resources and agriculture, retail and hospitality, international tourism and education – will benefit if we, as Queenslanders, can implement economic reform of the energy sector in the spirit of that achieved in the National Reform Agenda in the 1990's.

If there is any way in which Townsville Enterprise can assist, please don't hesitate to contact me.

Yours sincerely



Tracey Lines
General Manager Economic Development

TOWNSVILLE ENTERPRISE

**SUBMISSION TO THE
QUEENSLAND PRODUCTIVITY COMMISSION'S
ISSUES PAPER**

ELECTRICITY PRICING IN QUEENSLAND

NOVEMBER 2015

Introduction

This submission has been prepared in response to the Queensland Productivity Commission's Issues Paper on Electricity Pricing in Queensland.

It is prepared as part of Townsville Enterprise's long term priority to see a reduced price of delivered energy to stimulate economic development in the region.

The Queensland Productivity Review is a rare opportunity to investigate and rectify the fundamental issues causing high and rising prices and uncertainty in the sector, in turn leading to a lack of investment and an unnecessary and unmanageable cost burden to industry, business and consumers.

Our starting position is that Queensland, and in particular North Queensland, has every natural resource – coal, gas, solar, wind, and more – required for a thriving domestic and export energy industry. Yet Queensland pays the highest wholesale price in Australia¹ and the Queensland Government pays over \$600 million per year to a Community Service Obligation. These facts point to a market failure and a flawed regulatory framework.

Add to this the unavoidable fact that energy generation, transmission, storage, usage and climate impacts and responses are globally in a state of flux embracing rapid technology innovations and uptake and we face a scenario requiring flexible parameters encouraging investment and innovation to capitalise on cost effective energy and stimulate industry and economic development.

Townsville Enterprise remains wholly committed to the development of North Queensland and Northern Australia in the interests of our five Mayors and Local Governments, 382 business members and the broader community.

We believe lower electricity prices are a fundamental component of this goal.

¹ AEMO <http://www.aemo.com.au/Electricity/Data/Price-and-Demand/Average-Price-Tables>

Terms of Reference

We commend the Terms of Reference issued by the Queensland Government directing the objective of the Electricity Price Inquiry.

We particularly note the objectives of providing the government with options focusing on a competitive electricity market and efficient investment and operation of electricity infrastructure.

We consider that the Issues Paper places a high degree of focus on fairness and equity; that is primarily how to distribute the costs or protect the vulnerable in the community.

We consider that the prime considerations need to be:

- **High level reform of the market structure;**
- **How to facilitate private sector investment into the market;**
- **Decentralised generation leading to a reduction in marginal loss factors in Northern and Regional Queensland;**
- **Moving Queensland to a low cost energy economy and the flow on benefits of such; and**
- **Quantifying the benefits which would accrue to industries, organisations and the community and in turn the broader economy if low cost energy was achieved.**

Great opportunities lie in:

- **Facilitating implementation of the most innovative and efficient technology;**
- **Supporting location based generation and reducing the centralized model of generation;**
- **Increasing competition in regional and North Queensland; and**
- **Investing in transmission infrastructure so projects which are viable gain access to the grid.**

Specific Items

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The overview of Queensland's electricity supply arrangements articulates generation, transmission, distribution and retail components. The vast majority of the sector is government owned. Additionally, there is very little competition outside of SEQ. In effect, the delivered price of energy in Queensland is the role of government. The State Government has the responsibility to ensure energy is delivered to industry, business and households at a price which consumers can afford and which facilitates economic development.

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Electricity pricing was a key component of the National Competition Policy which drove reform and is credited with creating much of Australia's economic growth from the 1990's onwards. Reform policy has since not kept pace with that achieved in this period of reform, and we contend, is much overdue in the energy sector. The energy sector has evolved to a great extent over preceding decades and National Electricity Law must be reviewed to achieve optimal outcomes in the contemporary market.

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We highlight the comment that the AER's 2010 revenue determinations coincided with uncertainty in world financial markets and thus resulted in a higher regulated rate of return on the distributor's assets. We concur with this position. However, we contend that the 2015 revenue determinations coincide with uncertainty in the future of energy generation, transmission, storage, usage, climate impacts and responses, technology innovations and uptake and thus, will result in a repeat of higher returns than will be justified during the coming five year period. We contend that a fixed revenue determination over the coming five year period in a market in such a state of flux is reckless to Queensland's economic development.

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We commend the concurrent review into Solar Feed In Tariff (FIT) pricing. We note the current Government has inherited the legacy issue of 44 cent per kWh for contracts set prior to July 2012. This is a significant impost to the sector and encourage the QPC and State Government to consider measures to remedy.

We propose that the fiscal impost resulting from the legacy FIT pricing must accrue to Queensland Government's general revenue rather than remaining electricity consumers.

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We note the AEMA and the NEL provide for jurisdictions to derogate from nationally harmonised laws and to vary the national laws through jurisdiction specific requirements. We contend that a large part of the high costs of energy are a result of the legacy of over investment by previous governments in reaction to brown outs experienced in South East Queensland (SEQ). The over provision or “gold plating” of infrastructure resulted in a significant increase in the regulated asset base which in turn delivers a financial return to the asset owner. We contend that the vast majority of this investment was delivered in SEQ and thus the “capital investment overhang from the previous decade” should not be repaid by regional and/or northern Queensland.

In terms of equity, it is worthwhile to point out that North and Regional Queensland experience loss of electricity supply every year during the wet season and there is no subsequent rush to invest in infrastructure. It is therefore only equitable that the entire state should not be financing that occurring in SEQ.

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We note and commend the Issue Paper highlighting the decreasing productivity in the electricity sector. We strongly assert that this is the highest priority factor driving increased costs damaging the cost competitiveness and confidence of Queensland’s industry, business and community. The reform agenda undertaken by the nation in the 1990s drove Australia’s economic performance for decades. This scale of bold reform is what Queensland should be demanding on a national level.

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We commend and support the view of the Australian Productivity Commission (PC) that *“the system as a whole is inefficient, and price pressures could be reduced substantially over the longer term if a coordinated set of reforms were introduced.”*

Further, we commend and support the statement of the QPC that *“the rate at which new technologies and other innovations can be deployed to make better use of existing infrastructure.”* We believe the current market framework does not adequately facilitate the most innovative and efficient technology.

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“Cost reflective pricing” is an often used term which in practice increases fixed costs and reduces unit costs to industry, business and households via tariffs. In turn, this reduces the ability of consumers to reduce their overall costs via increased efficiency and decreased demand. In practice, it is readily apparent why this is poorly received by consumers and perceived as a contemptuous move to ensure consumers are unable to reduce costs they can ill afford.

We support recent policy reforms in the form of relaxing Queensland's network reliability frameworks in 2014. However, as stated above, the over investment and "gold plating" which resulted in the preceding increase in reliability standards were a result of brown outs in SEQ. North Queensland experiences loss of power supply every single year during cyclone season and thus, should not be subject to repaying the capital overspend which resulted from a one off SEQ experience.

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We assert the QPC should use this inquiry as a platform to re-educate and re-inform the public. As demonstrated in Figure 5, coal fired generation equates to three-quarters of Queensland's total electricity supply. Coal is also Australia's second largest export commodity by value. Common media and perception views coal as a "dirty" and thus less than desirable industry. This is not an appropriate or supportive perspective for the industry which is the dominant energy source for our great State and a key component of the national economy.

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Q 2.3 What are the potential benefits and risks in the Queensland Government's renewable energy plans, including solar targets, for electricity sector productivity and electricity prices in the longer term?

There is widespread misunderstanding of very basic components of the energy and electricity sector leading to misinformed public perception regarding energy and electricity. Examples include:

- The amount of coal required to create and sustain wind power
- The necessity of coal to steel production and the essential nature of steel to a functioning economy
- The eminence of coal generation to Queensland's electricity supply and Australia's export profile
- The rapidly improving clean coal technology
- The economic cost of renewable targets lacking in appropriate transition periods in terms of employment and financial impacts

Q 2.5 What factors are influencing higher wholesale prices in Queensland and do these represent systemic or transient market issues?

A number of factors influence this including:

- A lack of competition in generation; two state owned generators supply approximately 65% of generation in Queensland. This is a systemic issue. This position is supported by Rod Sims' comments relating to Queensland having the most concentrated energy market and ACIL Allen comments regarding increased market concentration leading to increasing prices.
- The late rebidding behavior of generators; while operating within the National Electricity Laws; results in higher wholesale prices. This is a systemic issue.
- A high contribution to Government revenues. The financial contribution to the owners of the State Government Owned entities in Queensland's energy sector increase wholesale prices. This is a systemic issue.

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Q 2.6 Are there any issues associated with the existing level of competition in Queensland's electricity generation sector, and what are the potential impacts on the wholesale electricity market?

As outlined above, the existing level of competition is not sufficient. Competition must be increased to reduce duopoly power.

The most attractive option to mitigate competition impacts is to encourage alternate (and decentralized) generation. This is required to be in North Queensland and can potentially deliver additional benefits of increased generation by renewables sources (if projects such as Kennedy Energy Park, Collinsville Ratch Solar, etc are supported) and supporting regional development, noting North Queensland's unacceptably high unemployment rates.

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In relation to the Queensland Government's 2015 election commitment to having a combined network business headquartered in Townsville, the regional community unequivocally expects this commitment be honored. The region is facing unacceptably high unemployment levels and the State Government must play a role in supporting the region in rectifying this.

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Townsville Enterprise endorses the position outlined in the Federal Government's Energy White Paper, and published in the QPC Issues Paper, that focusing on investment into supporting emerging energy technologies is preferable to providing ad-hoc assistance through a variety of programs.

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Q 4.18 What are stakeholders' views on the effectiveness of energy efficiency and demand management measures in helping alleviate electricity bills for customers on transitional or obsolete tariffs, and are there other options that should be considered?

In a context where five year revenue determinations are held, regardless of how efficient customers become, there will still be a set amount of income to be earned from a set (and decreasing) pool of customers. This is a situation which is simply not acceptable nor sustainable. This is being illustrated by movements towards tariffs which deliver larger fixed costs and lower unit costs, meaning the more customers invest in efficiency, and reduce consumption, the more the goalposts will shift. This is being implemented at this current point in time and is something electricity consumers – households and businesses – in North Queensland simply cannot sustain.

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The findings reported from the 2014 Queensland Household Energy Survey namely that despite large increases in electricity prices, concern over their ability to pay their electricity bills has remained constant are strongly repudiated by Townsville Enterprise:

- This is not reflected in the evidence – unprecedented levels of consumers who are experiencing disconnections as a result of inability to pay bills are a fact.
- This is not reflected anecdotally – Townsville Enterprise represents almost 400 businesses and electricity pricing is almost universally reported as the largest constraint and highest concern facing business.
- This position defies common sense and rationality.

Also, while increasing proportions of household and business income is allocated to energy prices, smaller proportions are available for investment, spending, etc. This is a very destructive impact on the economy.

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Protecting low income groups is an important issue. However, protecting industry from paying uncompetitive input costs is an imperative to a functioning and growing economy. Many Queensland businesses are exposed to international competition, which means every component of input costs which are higher than international benchmarks (energy being a prime example) inhibits our ability to trade internationally and to attract investment.

SUMMARY

The focus of reform of the energy sector in Queensland simply cannot concentrate on how to protect low income earners from exorbitant prices. Fundamental reform of the sector is required to return Queensland to as low(er) energy cost region to stimulate our economy, which will in the longer term provide a more sustainable revenue stream to Government. Longer term vision is required to ensure the optimal outcome.