

11 March 2016

Queensland Productivity Commission  
PO Box 12112  
George Street  
BRISBANE QLD 4003

### **Queensland Futures Institute Submission on Electricity Pricing in Queensland**

Please find enclosed the Queensland Futures Institute's recommendations on the Queensland Productivity Commission Electricity Pricing Draft Report.

Please don't hesitate to contact me on 0488 721 156 if you have any further queries.

Yours faithfully,



**Steve Greenwood**  
Chief Executive Officer

<b>QFI Recommendations</b>			
<b>Supply chain productivity - A sector in transformation</b>			
1	To ensure the development of an efficient electricity market, the Queensland Government should not favour any technology over another, and allow the market to evolve to meet consumer demand.	Endorsed	Endorsed only to the extent that all technologies are assessed on a true costs basis e.g. green subsidies on the one hand, free pollution permits on the other. We suggest amending the recommendation to add “but include an assessment of external costs with any technology”
2	To ensure the development of an efficient electricity market, government intervention should be limited to circumstances of clear market failure, and all government intervention should only occur after there is a clear demonstration that the benefits outweigh the costs.	Endorsed	Market failure and benefits should be assessed against a balanced set of pre-determined state objectives that include, carbon emission targets, energy security and productivity, affordability, equity, shareholder return, Gross Domestic Product growth, innovation and job creation, taking
3	The Government should implement an ongoing review program, in conjunction with the network businesses, to monitor the impacts of emerging technology, and to identify the potential need for an early response to be made, based on an assessment of the costs and benefits.	Comment	There should be ongoing transparent and public reporting rather than an ongoing review. As per recommendation 2, intervention should be limited to a clear market failure assessed against balanced objectives, i.e. slow market penetration of an emerging high cost technology is more about maturity than market failure. The network businesses and Government should ensure that existing and future capital expenditure programs are highly cognisant of changing technology and consumer preference. A clear recognition needs to exist that the sector faces significant and abrupt changes and discretionary investment options involving longer payback periods should be subject to strong financial due diligence. Government intervention should be avoided. The acceleration of emerging technologies often leads to higher costs than if the market is left operate without distortion.
<b>Generation</b>			
4	The Queensland Government should not merge CS Energy and Stanwell, given the likely reduction in competition in Queensland’s already concentrated wholesale electricity market and the likely consequence of higher wholesale electricity prices.	Endorsed	

5	The Queensland Government requirement for CS Energy and Stanwell to achieve operating efficiencies should be complemented by a strengthening of the shareholder oversight role to ensure clear targets for improving performance are set and achieved.	Endorsed	To ensure good governance the oversight from a shareholder perspective must be through the board. Clear delineation is needed between policy, regulatory and shareholder matters.
6	To reduce the combined market concentration of CS Energy and Stanwell, the Queensland Government should confirm that it does not intend to increase the size of the existing Government owned corporation (GOC) generation capacity.	Endorsed	
7	The Queensland Government should require CS Energy and Stanwell to develop and adhere to a common voluntary Code of Conduct (the Code) in respect of their rebidding behaviour. The Code should be developed as part of a public consultation process.	Comment	Further consideration needed to understand if this gives private merchant generators a market advantage. To ensure consistency in the market it would need to be applied nationally.
8	The Queensland Government should require CS Energy and Stanwell to report to the Government, on an annual basis, all late rebids submitted to the Australian Energy Market Operator. This report should be audited by an independent body, and the findings of the audit made available to the public.	Endorsed	
9	The Queensland Government's Renewable Energy Taskforce should consider: <ul style="list-style-type: none"> <li>– the cost and price impacts of a Queensland target;</li> <li>– the merits of including small scale solar in a renewable energy target; and</li> <li>– the benefits of an inter-jurisdictional approach to emissions reduction policy.</li> </ul>	Endorsed	The target should be a carbon target so that energy efficiency and productivity are taken in to account. It needs to be technology agnostic. A carbon target per capita or GDP is an outcome where-as renewable targets as a % of energy consumed does not drive an efficient or productive energy eco system.  The taskforce should also consider the impact on State Gross Domestic Product, energy security and reliability trade-offs, the cost of redundancy and value impact on state assets. Costings should be done by comparing the government's target to the base case without intervention but assuming a carbon price path as assumed by the CCA (which is an attempt to rectify market failure to price carbon).
10	In order to achieve least-cost carbon abatement, the Queensland Government should work with the COAG Energy Council to find opportunities for collaboration on carbon policy, as an alternative to pursuing independent action.	Endorsed	

11	The Queensland Government should not intervene in the solar PV market to achieve a 3000 MW capacity target for solar PV uptake in Queensland by 2020.	Endorsed	The networks should work with large scale proponents to provide visibility on where efficient and effective connections can be made to the network therefore avoiding/reducing connection costs. Networks should continue to improve the efficiency of the network connection process and technical standards for small scale renewable.
<b>Networks</b>			
12	The Queensland Government's planned merger of the network businesses to achieve efficiencies should be complemented by strengthening of the shareholder oversight role to ensure clear targets for improving performance are set and achieved.	Endorsed	Need to ensure good governance through stronger delineation between shareholder, regulatory and policy issues.
13	The holding company should undertake an organisation structure review to ensure service delivery is maintained while achieving the savings from the merger.	Endorsed	
14	Where network businesses are engaged in potentially competitive functions, the holding company should: <ul style="list-style-type: none"> <li>– ensure priority is given to the core activities of the businesses being the provision of electricity network services;</li> <li>– ensure there is robust ring-fencing between the competitive and monopoly functions;</li> <li>– undertake market testing of any commercial interactions between the functions; and</li> <li>– consider a longer-term strategy of full structural separation of the energy services business and the natural monopoly distribution businesses.</li> </ul>	Endorsed Endorsed Endorsed Endorsed	The recommendation for full structural separation needs to explain and provide evidence as to what the benefit will be to the customers of a market constraint. Add an additional bullet to the draft recommendation: <ul style="list-style-type: none"> <li>• Establish monopoly distribution businesses as trading business that profit from moving power not the volume of power sold.</li> </ul>
15	To ensure that the national regulatory frameworks effectively respond to the development of new technologies and business models, the Queensland Government should work proactively with the COAG Energy Council on reforms in this area.	Endorsed	

16	Distribution businesses should continue to minimise or defer network capital expenditure by pursuing both tariff and non-tariff demand management programs (including discounts or rebates) for customers who shift their load to off-peak periods or are subject to interruptability of supply.	Endorsed	<p>There is significant energy resource currently under control tariffs that needs to be utilized more effectively. Incentives should only apply where there is a positive business case resulting in the lowest cost outcomes for customers.</p> <p>The distribution businesses should encourage market led beyond the meter solutions for network constraints that minimise investment in shared assets.</p>
<b>Solar bonus scheme</b>			
17	The Queensland Government should consider the merits of an earlier end to the Solar Bonus Scheme than the planned 2028 scheme closure.	Comment	<p>On the basis that the recommendation is not accepted by government, the government should consider alternatives ways of leveraging the long term liability to fund solutions that create value for the customer and the network and that reduces the liability, i.e. buying out the contracts on constrained evening peaking feeders funded by discounted life time costs, net of the current present value of the Ergon Energy Feed In Tariff to 2028. This should be done where it results network investment being avoided.</p>
<b>Retail markets and consumers</b>			
18	<p>The Queensland Government's involvement in the retail market should be limited to:</p> <ul style="list-style-type: none"> <li>– points of significant change in the market that require the trust and credibility governments have with consumers (e.g. deregulation in SEQ, tariff reform); and</li> <li>– providing targeted support for vulnerable customers, including partnerships with the community sector.</li> </ul>	Comment	<p>Government need to provide a derogation to enable Ergon Energy feeders funded by discounted life time costs, net oadvanced meters as part of Ergon's aged meter replacement program.</p> <p>The government should consider making communications enabled advanced meters mandatory for all new connections.</p> <p>Residential customers should be encouraged on to season time of use demand tariffs with the inclusion of a safety net using the flat tariff 11.</p>

19	<p>The Queensland Government should prepare for its review of the effectiveness of the National Energy Retail Law (NERL) in Queensland by determining:</p> <ul style="list-style-type: none"> <li>– whether the information retailers are required to publish in the market is sufficient to encourage effective consumer choice;</li> <li>– whether the arrangements are sufficiently flexible to apply to new products and services, and do not unnecessarily stifle innovation or limit competition;</li> <li>– whether the current retail market framework is applicable to new or alternative service providers and provides a level playing field for all participants while ensuring adequate consumer protections are retained; and</li> <li>– options to improve the competitiveness of standing offers, including requiring retailers to publish their standing offer prices on the same day which is likely to have consumer benefits.</li> </ul>	Endorsed	
<b>Shareholder interests</b>			
20	The Queensland Government should consider a simplification of reporting relationships with the GOCs and adopt an active best practice approach as the Government shareholder.	Endorsed	
21	The Queensland Government should consider enhancing its shareholder performance monitoring role for electricity GOCs with a focus on achieving cost and performance efficiencies.	Endorsed	
<b>Deregulation in SEQ</b>			
22	Deregulation of the SEQ retail electricity market should commence as planned on 1 July 2016.	Endorsed	
23	If the Queensland Government accepts draft recommendation 22, market participants should be advised of the timing of deregulation as soon as possible.	Endorsed	

24	<p>To support the move to price deregulation and promote greater customer participation in the SEQ retail electricity market, the currently planned customer engagement campaign should:</p> <ul style="list-style-type: none"> <li>– provide sufficient advice and information to consumers to assist with comparing offers, and be tailored to address the needs of vulnerable customer groups; and</li> <li>– provide assistance to non-government organisations (NGOs) to assist vulnerable and disadvantaged consumers to fully participate in the market.</li> </ul>	Endorsed	
25	<p>The currently proposed market monitoring arrangements, which include market comparison reports by the Australian Energy Market Commission (AEMC), AER and an annual report from the QCA on price and cost movements in SEQ, are adequate.</p>	No Comment	
26	<p>Monitoring the efficiency and effectiveness of standing offers should form part of the Queensland Government's market monitoring arrangements for SEQ.</p>	Endorsed	
27	<p>Should retail price deregulation in SEQ proceed, adequate consumer protections exist, and we have therefore not recommended additional protections to those already developed.</p>	Endorsed	
28	<p>The Queensland Government should monitor the impact of deregulation on vulnerable and low income customers, particularly in relation to:</p> <ul style="list-style-type: none"> <li>– understanding contract terms and benefits, including percentage discounts off standing offers; and</li> <li>– late payment penalties.</li> </ul>	Endorsed	
<p><b>Options for increasing competition in regional Queensland</b></p>			

29	<p>The Queensland Government should make the current UTP arrangements transparent by:</p> <ul style="list-style-type: none"> <li>– reporting on how the UTP CSO is defined and calculated; and</li> <li>– reporting annually on the distribution of the CSO including identifying CSO recipients by category (very large, large, small and residential customer), region, and industry sector and subsector (where possible).</li> </ul>	<p>1/ Endorsed</p> <p>2/ See comment</p>	<p>The recipient of the CSO is Ergon Energy Retail.</p> <p>The CSO should be paid to Ergon Energy Retail, identifying CSO recipients by category (very large, large, market monitoring arrangements forer groups; nment replacement program. 028. This sconnections.</p> <p>Allocating CSO by category, location and sector is problematic and is not reflective of how it is currently structured.</p>
30	<p>To facilitate retail competition in regional Queensland, the Queensland Government should implement a network CSO, although changes to the UTP arrangements should be considered to offset some of the additional costs to the State Budget.</p>	<p>Endorsed</p>	<p>There should not be additional costs if structured simply. There will be a potential loss of value and margin as the retail competition occurs.</p>
31	<p>The Queensland Government should identify and prioritise measures that mitigate the financial impact of moving CSO payments from Ergon Energy (Retail) to Ergon Energy (Network).</p>	<p>Endorsed</p>	
32	<p>A date of no later than 1 July 2019 should be considered for the implementation of a network CSO and retail competition for regional Queensland.</p>	<p>Endorsed</p>	
33	<p>Structural reform is required to the government-owned retailer Ergon Energy (Retail) prior to the implementation of regional competition to clearly separate the retail and monopoly elements of the Ergon Energy business.</p>	<p>Endorsed</p>	
34	<p>Full structural separation of Ergon Energy (Retail) from the distribution businesses (including Energex) under the new merger model, including a new name for the retail business, should be considered in preference to ring-fencing prior to the implementation of a network CSO.</p>	<p>Comment</p>	<p>Recommendation needs to clarify what full structural separation is in the context of the announced merger. Is it a subsidiary of the Holding Company or is it a separate entity with a different board and potentially shareholders.</p>
35	<p>The 'non-reversion' policy should be removed from the <i>Electricity Act 1994</i> and the restriction on Ergon Energy (Retail) competing to retain existing customers should be removed.</p>	<p>Endorsed</p>	
<b>Rural and Regional industries</b>			
36	<p>To help customers on transitional and obsolete tariffs determine if they would be better off on a cost reflective tariff, Ergon Energy should provide them with ongoing information comparing different tariff impacts so they can make informed choices over time.</p>	<p>Endorsed</p>	



37	The Queensland Government should ensure meters capable of measuring charges for the relevant tariff options are in place for customers on transitional and obsolete tariffs.	Endorsed	Question of who funds this.
38	<p>The Queensland Government should develop an industry assistance arrangement to help impacted businesses to adjust before 2020 by:</p> <ul style="list-style-type: none"> <li>– identifying which customers on transitional and obsolete tariffs are at risk as a result of the shift to cost reflective electricity prices;</li> <li>– providing financial grants to support customer investment in energy efficiency and demand management; and</li> <li>– considering whether to provide additional support for particular customers separate to electricity prices.</li> </ul>	Comment	<p>Cross subsidies should be avoided if possible. In many cases the energy efficiency gains will self-fund the costs of new equipment under existing tariffs. That aside it is often the case that the investment does not occur for various reasons and that incentives may be needed to trigger action. There are also a number of funding options available for energy efficiency through Commercial banks and government bodies such Clean Energy Finance Corporation. Leveraging the Emissions reduction fund to partly fund aggregated efficiency programs of industry sectors (agriculture) should be pursued. Payment options through electricity retail accounts should be considered.</p> <p>Funding source for grants need to be transparent.</p>
39	The Queensland Government should develop eligibility criteria for access to industry assistance to target the most impacted customers and ensure taxpayer funding is spent efficiently and effectively.	Endorsed	
40	To the extent our recommendations are accepted, the Queensland Government should ensure they are implemented so that customers have all of the necessary tools by no later than the start of the 2017–18 tariff year.	Endorsed	
<b>Role of local service providers</b>			
41	The Queensland Government should identify, and where appropriate remove, state-based barriers to local options for third party supply of electricity, to support cost effective energy supply.	Endorsed	Evidence is that many advocates of local based options compare local energy generation costs with the retail cost of delivered energy. Transparency is need to inform investment on what elements relate to energy, transmission and distribution networks, and retail. Also the value of elements of security, capacity, back up supply, frequency control and response need to be transparent.

42	The Queensland Government should await the outcome of the AEMC's determination on a proposed national rule change to enable local generation network credits, rather than consider any state-specific arrangement.	Endorsed	The argument for mandatory local generation credits on the basis of network support is not supported by evidence. This will lead to increase costs for all users. Credits should be negotiated on actual value created.
43	<p>The Queensland Government should encourage least-cost innovative solutions in isolated systems, with possible options including:</p> <ul style="list-style-type: none"> <li>– providing incentives for Ergon Energy's new holding company to look at cheaper supply options;</li> <li>– piloting a third party arrangement; and</li> <li>– identifying the level of CSO subsidy for each isolated system so that third parties can assess whether their involvement is feasible.</li> </ul>	Endorse lowest cost	<p>The market should be allowed to prevail in terms of distributed energy resources and base generation. Current low fuel prices have significantly reduced the marginal operating costs making it more difficult for integrated large scale renewable solutions at this time. This is more a matter of timing.</p> <p>Distributed Energy Resources such as roof top solar is more likely to deliver a social and overall shared network cost benefit.</p> <p>ARENA are already providing grants to install renewable supplementary supplies in Doomadgee and Thursday Island.</p>
<b>Electricity concessions framework</b>			
44	The Queensland Government should determine a clear policy intent for its concessions framework and assess the design of the framework against the principles of adequacy, equity, adaptability and transparency.	Endorsed	
45	<p>The Queensland Government should:</p> <ul style="list-style-type: none"> <li>– extend eligibility for the general Electricity Rebate to recipients of the Commonwealth Government Health Care Card as soon as practicable; and</li> <li>– remove access to the general Electricity Rebate for Queensland Seniors Card holders. Consideration could be given to grandfathering eligibility for existing Queensland Seniors Card holders.</li> </ul>	No Comment	
46	The Queensland Government should maintain the current flat rate structure for the general Electricity Rebate.	Endorsed	

47	Subject to the State's fiscal constraints, the Queensland Government should consider if there is a case for providing additional support for households with dependent children, as consumption increases with the number of people in a household.	No comment	
48	The Queensland Government should undertake a review of the Medical Cooling and Heating Electricity Concession Scheme and the Electricity Life Support Rebate to consider if the level and delivery of this support is appropriate, and to consider their application and certification processes.	No comment	
49	<p>The Queensland Government should:</p> <ul style="list-style-type: none"> <li>– work to place a mandatory obligation on exempt sellers to apply for and administer electricity rebates and concessions for their customers — either through amended AER guidelines or changes to the Electricity Act;</li> <li>– work with Ergon Energy (Retail) and local indigenous networks to engage with local family groups to increase awareness and uptake of electricity rebates for eligible consumers in remote communities;</li> <li>– review the Home Energy Emergency Assistance Scheme to simplify application and lodgement, and undertake a communications campaign to increase awareness and uptake of the program; and</li> <li>– transfer policy ownership and responsibility for medical concessions to Queensland Health, given it determines clinical eligibility.</li> </ul>	No Comment	
50	The Queensland Government should seek COAG agreement for the administration of energy concessions to be part of the broader Australian Government social security system, to improve efficiency and equity.	Endorsed	
<b>Impacts of network tariff reform and impediments to participation</b>			
51	The Queensland Government should address the impacts of tariff reform for vulnerable customers by ensuring concessions are well-targeted (as per our recommendations in Chapter 12).	Endorsed	

52	<p>The Queensland Government should improve the data set used to determine the impacts of network tariff reform on customers by ensuring:</p> <ul style="list-style-type: none"> <li>– metering is in place to gather sufficient load profile data;</li> <li>– representative samples of customers, including customers that are considered vulnerable, are included in Energex and Ergon Energy’s upcoming tariff studies; and</li> <li>– Government, customer representatives and distribution and retail businesses aggregate the necessary load profile and demographic data.</li> </ul>	Endorsed	
53	<p>The Queensland Government should establish a working group involving distribution and retail businesses and relevant customer representatives to:</p> <ul style="list-style-type: none"> <li>– develop new tools to help customers understand the costs and benefits of demand tariffs;</li> <li>– identify customers vulnerable to the impacts of tariff reform; and</li> <li>– investigate the requirement for support.</li> </ul>	Endorsed	
54	<p>The Queensland Government should investigate:</p> <ul style="list-style-type: none"> <li>– placing a requirement on landlords to meet certain standards of energy efficiency and demand management in their housing stock; and</li> <li>– funding a complementary assistance program to subsidise the purchase price of energy and demand efficient appliances for vulnerable consumers that have accessed the Home Energy Emergency Assistance Scheme due to the breakdown of their existing appliances.</li> </ul>	Endorsed	