

Friday 11 March 2016

Commissioner Kim Wood  
Queensland Productivity Commission  
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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 in response to the Queensland Productivity Commission's draft report into electricity pricing in Queensland. This inquiry is focussed on an important (and fast growing) component of the delivered cost of electricity in Queensland.

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.

QRC appreciates the opportunity to participate as a member of the Commission's Stakeholder Reference Panel for this inquiry and commends the Commission on their consultative approach. QRC members will also participate in the Commission's public hearings and forums in late March and early April.

As you know, 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.

QRC commends the Commission on the quality of their draft report. Electricity pricing is a highly complex and politicised issue, but QRC regards the draft report as providing a balanced assessment of the evidence that the Commission has to hand. QRC endorses the Commission's conclusion that it is:

*"important that governments set the right framework to transition to a lower emissions economy in a way that supports the market providing electricity at least cost – including making best use of the electricity infrastructure that exists", (page viii), and*

*“...this should occur with the Queensland Government working with the Council of Australian Governments (COAG) Energy Council to find opportunities for national collaboration...” (page x).*

QRC suggests that for many in the community, it would be a shock to read the Commission’s draft report and understand that *“Queensland has an oversupply for generation capacity and no new capacity is required until 2021-22. However new renewable capacity is being delivered to meet the RET”*, (Renewable Energy Target, page ix). It is difficult to reconcile investing into new generation capacity in an oversupplied market as a means of trying to deliver lower electricity prices.

The draft report does a good job of presenting the many different elements that go into determining the final price of electricity in Queensland and the interconnection between these different elements. To facilitate greater understanding of how each of these issues affect a typical electricity bill, QRC suggests that the Commission standardise the comparisons. As an example, the costs of the solar bonus scheme in 2015-16 are estimated to adding \$89 to a typical power bill (page xi), whereas other relevant costs such as the uniform tariff system are reported simply as a statewide cost of \$596 million (page xi).

As set out below, QRC is supportive of the majority of the Commission’s recommendations; however, as a whole, the set of recommendations don’t knit together into a cohesive plan for reform. QRC suggests that the Commission consider also presenting a draft 5 and 15 year plan for electricity pricing reforms in Queensland as an example for Government of how to best implement the Commission’s recommendations. QRC is concerned that unless the Commission integrates their recommendations into a cohesive reform agenda that the recommendations may only be considered in a piecemeal fashion.

QRC suggests that presenting a comprehensive reform plan is entirely consistent with the Commission’s role of providing independent advice on complex economic and regulatory issues, and proposing policy reforms. An electricity reform plan would clearly be in the interests of driving economic growth, lifting productivity, and improving living standards across Queensland.

If the Commission’s final report presented a reform plan, then it would allow the Commission to demonstrate how to apply the first three recommendations (as well as recommendations #10 and #29) as overarching principles to guide the more efficient pricing of electricity in Queensland.

## Specific comments on QPC's draft recommendations

Rec #	Draft QPC electricity pricing recommendation	QRC comment
<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.	QRC endorses this recommendation as an overarching principle for the inquiry.
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.	QRC endorses this recommendation as an overarching principle for the inquiry.
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.	QRC suggests that the Commission should manage this ongoing review process. QRC also suggests that the review be extended to encompass all stakeholders.
<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.	QRC supports this recommendation.
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.	QRC supports this recommendation.
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.	QRC supports this recommendation.
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.	QRC notes that the Australian Energy Market Commission (AEMC) has jurisdiction of rebidding behaviour.
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.	
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>	QRC supports this recommendation.

<b>Rec #</b>	<b>Draft QPC electricity pricing recommendation</b>	<b>QRC comment</b>
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.	QRC endorses this recommendation as an overarching principle for the inquiry.
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.	QRC supports this recommendation.
<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.	QRC supports this recommendation.
13	The holding company should undertake an organisation structure review to ensure service delivery is maintained while achieving the savings from the merger.	QRC supports this recommendation.
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>	QRC supports this recommendation.
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.	QRC suggests that this recommendation could usefully be made more specific.
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.	QRC supports this recommendation, but notes that any demand management needs to be voluntary.
<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.	QRC supports this recommendation.
<b>Retail markets and consumers</b>		
18	The Queensland Government's involvement in the retail market should be limited to: <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>	QRC supports this recommendation.

Rec #	Draft QPC electricity pricing recommendation	QRC comment
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>	QRC supports this recommendation.
<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.	QRC supports this recommendation.
21	The Queensland Government should consider enhancing its shareholder performance monitoring role for electricity GOCs with a focus on achieving cost and performance efficiencies.	QRC supports this recommendation.
<b>Deregulation in SEQ</b>		
22	Deregulation of the SEQ retail electricity market should commence as planned on 1 July 2016.	QRC has no comment on this recommendation.
23	If the Queensland Government accepts draft recommendation 22, market participants should be advised of the timing of deregulation as soon as possible.	QRC supports this recommendation.
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>	QRC supports this recommendation.
25	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.	QRC supports this recommendation, but notes that while adequate, they are also highly complex.
26	Monitoring the efficiency and effectiveness of standing offers should form part of the Queensland Government's market monitoring arrangements for SEQ.	QRC has no comment on this recommendation.
27	Should retail price deregulation in SEQ proceed, adequate consumer protections exist, and we have therefore not recommended additional protections to those already developed.	QRC supports this recommendation.

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28	The Queensland Government should monitor the impact of deregulation on vulnerable and low income customers, particularly in relation to: <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>	QRC supports this recommendation and suggests that the QPC could play this monitoring role.
<b>Options for increasing competition in regional Queensland</b>		
29	The Queensland Government should make the current UTP arrangements transparent by: <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>	QRC endorses this recommendation as an overarching principle for the inquiry.
30	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.	QRC has no comment on this recommendation.
31	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).	QRC supports this recommendation.
32	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.	QRC has no comment on this recommendation.
33	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.	QRC supports this recommendation.
34	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.	QRC supports this recommendation.
35	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.	QRC supports this recommendation.
<b>Rural and Regional industries</b>		
36	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.	QRC supports this recommendation.
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.	QRC supports this recommendation.

<b>Rec #</b>	<b>Draft QPC electricity pricing recommendation</b>	<b>QRC comment</b>
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>	QRC supports this recommendation.
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.	QRC supports this recommendation.
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.	QRC supports this recommendation.
<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.	QRC supports this recommendation.
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.	QRC supports this recommendation.
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>	QRC supports this recommendation.
<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.	QRC supports this recommendation and suggest that the QPC should conduct the assessment.
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>	QRC supports this recommendation.

<b>Rec #</b>	<b>Draft QPC electricity pricing recommendation</b>	<b>QRC comment</b>
46	The Queensland Government should maintain the current flat rate structure for the general Electricity Rebate.	QRC supports this recommendation.
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.	QRC supports this recommendation.
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.	QRC supports this recommendation.
49	The Queensland Government should: <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>	QRC supports this recommendation.
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.	QRC supports this recommendation.
<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.	QRC supports this recommendation.
52	The Queensland Government should improve the data set used to determine the impacts of network tariff reform on customers by ensuring: <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>	QRC supports this recommendation.



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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>	QRC supports this recommendation.
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>	QRC supports this recommendation.

Thank you again for the opportunity to provide a submission on the Commission's draft report on the electricity pricing inquiry. I can confirm that this submission is not confidential and the Commission is welcome to publish this submission on your website.

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)

Yours sincerely



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