



SUBMISSION TO THE QUEENSLAND PRODUCTIVITY COMMISSION DRAFT REPORT ON ELECTRICITY PRICING IN QUEENSLAND

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

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1.0 Introduction:

The Chamber of Commerce and Industry Queensland (CCIQ) thanks the Queensland Productivity Commission (QPC) for the opportunity to provide a submission on the draft report on electricity prices in Queensland. The QPC has delivered 53 recommendations to the State Government in the draft report to address the issue of electricity prices in Queensland. CCIQ believes the report is not bold enough to achieve real price savings for small business energy consumers. That said, CCIQ notes that the QPC were bound by restrictive Terms of Reference for the inquiry.

This submission is provided in conjunction with a joint submission commissioned by the Queensland Council of Social Service (QCOSS). The joint submission addresses issues affecting productivity in the energy supply chain including networks; generation; and retail. CCIQ is confident that this submission provides quality technical analysis of the causes of Queensland's ongoing exorbitant electricity price increases. CCIQ calls on the QPC to carefully consider the recommendations put forward in this submission.

CCIQ view the draft report as a missed opportunity by the QPC to make a real difference for electricity pricing in Queensland. Electricity price rises since 2007 have taken a toll on small businesses, with an effective doubling in prices across this period. CCIQ believes that prices are now stabilising at an high level.

CCIQ made a number of recommendations to the QPC issues paper. While the QPC addressed a number of CCIQ recommendations, the elephant in the room is the absence of a real solution to reducing network prices. The QPC identified that network prices have largely attributed to the main cause of price increases for consumers across Queensland, yet went on to make only 5 recommendations in this area.

As an independent advisory body, the QPC has the ability to deliver impartial and informed counsel. Primarily, the objective of the inquiry is to seek options that promote the long term interests of electricity consumers, place downward pressure on electricity prices and ensure a dynamic and responsive pricing framework. CCIQ does not believe that the recommendations presented by the QPC as they currently stand will achieve these objectives. CCIQ suggests that the QPC reconsider the viewpoints put forward by the small business community in our submission on the issues paper together with the joint submission commissioned by the Queensland Council of Social Service (QCOSS) of the draft report.

2.0 Networks – recommendations 12-16

The QPC draft report outlines that the network costs represents the highest cost component of bills. However CCIQ was disappointed with the lack of actionable recommendations made by the QPC to address these cost pressures in the immediate term. For example, the QPC has recommended that the state-owned network businesses Energex, Ergon Energy and Powerlink are merged into a single entity to achieve savings through increased efficiencies. CCIQ believes that these savings will be minimal and unlikely to filter down to cost reductions on electricity bills.

This is particularly unsatisfactory given many submissions provided to the QPC made several suggestions on addressing network costs that would achieve immediate relief for consumers. CCIQ note that the QPC had too much regard for the financial position of the State Government rather than consumers.

The driver of high electricity prices has been due to the increase in network costs. Queensland's network prices are the highest in Australia. Queensland's network prices have more than doubled in recent years, causing a major strain on small businesses trying to remain competitive.

It is now well understood that the returns that the Queensland Government is realising from its electricity networks are extraordinarily high. These returns are being realised despite the Queensland electricity networks being amongst the most inefficient networks in Australia.

The future outlook for network costs as modelled by the QPC is expected to slightly decline and then remain flat for the next 30 years. This is a sobering projection for small businesses in Queensland who have communicated that the prices are stabilising at a rate that they cannot afford.

The key cause of the increasing network costs is due to the excessive size of the Regulatory Asset Bases (RABs). Queensland's electricity networks receive guaranteed returns on their regulatory valuations. This is well documented by a number of recent high level reports such as the Senate Inquiry on the Performance and Management of electricity Network Companies which concluded that the RABs were the fundamental cause of high network costs and will continue to be a major driver of revenue for network businesses in the future. CCIQ refers the QPC to the joint submission provided by QCOSS and CCIQ to the draft report for further analysis.

CCIQ believes that a discussion on electricity pricing cannot be had without addressing the issue of stranded network assets and considering options to write down parts of the network that are

unutilised. It is well established that the distribution companies overinvested in ‘gold plating’ the network system to improve reliability of supply. This has attributed to the overall increase in costs associated with maintaining the expanded network despite some areas being stranded or unused.

The QPC report also acknowledges that competition is emerging from unregulated products and services (such as solar PV and batteries) which have the potential to erode network usage and challenge existing pricing arrangements. It is in the best interests of the network businesses as state owned corporations to address these issues immediately before the full impact of their influence.

The QPC are best placed to at least investigate alternative options if it results in lower prices for small business consumers.

3.0 Ownership of network assets

CCIQ notes that the QPC report remains silent on the issue of asset privatisation. CCIQ recommended in the submission to the issues paper that the debate on asset ownership should be considered as part of the options presented to government to achieve reduced costs for Queensland small businesses. CCIQ believe that the QPC should consider the merits of all options independent of current state government policies.

CCIQ commissioned research by consulting firm Ernst and Young (EY) on network pricing trends in Queensland which revealed the high costs and low productivity of the electricity grid under public sector operation. The report assessed long term trends in the costs and prices associated with providing electricity network services, which revealed that, since privatisation of the electricity networks in Victoria and South Australia, network prices for typical consumers in those states have fallen in real terms. In contrast, network prices for a typical consumer in Queensland have increased in real terms by over 100 per cent over the same period.

Specifically, the research showed that inefficient public sector operation has, over the past 15 years:

- Increased customer network charges by 140 per cent;
- Driven nearly 90 per cent of the increases in customer power bills; and
- Meant Queensland’s electricity is 37 per cent more expensive than it should be, costing the average Queensland family \$570 more each year.

The report undeniably shows that the lease of the grid is in the best interests of the public, with prices lower than under a state-run operation.

4.0 Deregulation of retail electricity market in SEQ – recommendations 22-28

CCIQ was pleased to see the QPC draft report recommended that deregulation of the SEQ retail electricity market should commence as planned on 1 July 2016. CCIQ have been strong proponents for the removal of price regulation in the retail electricity market where it has been established that competition in the market is effective. The AEMC reported in the first quarter of 2015 that competition in the SEQ retail market is effective with a range of energy options available from 11 different retailers.

As retail prices make up approximately 20 per cent of the average small business electricity bill, CCIQ sees this reform as an opportunity for Queensland small businesses to benefit from price reductions.

Retail deregulation is designed to increase competition in the market, which will allow customers to shop around for the best contract deal, consequently placing downward pressure on retail prices. While CCIQ supports the move to deregulation we stress the importance of ensuring all consumers are well informed ahead of the 1 July reform.

CCIQ is confident that the removal of regulated prices will ultimately drive better outcomes for consumers in terms of choice, efficiency, customer service and lower prices, provided consumers are actively participating in the retail electricity market.

Small businesses in SEQ expect to see not only better price offers but additional product and service offerings from retailers post 1 July. One of the benefits of deregulation is likely to see more innovation enter the market. This will more adequately suit small businesses specific needs particularly those who take up alternative energy sources.

CCIQ believes that retailers have an important role to play in ensuring consumers understand offers, contracts and different products. The first point of call for most small businesses is with their energy retailer. Often the retailer is the primary connection between a small business and the energy sector. As such, retailers play an important role in communicating with their customers through their

electricity bills. However due to the complex nature of the electricity industry, many small business customers have become disengaged. A recent CCIQ survey revealed that 62 per cent of small business respondents never switch their energy retailer and 27 per cent switch every 2 years. Small businesses have communicated to CCIQ that price is the most important factor when choosing an electricity retailer. Small business disengagement in the electricity market is highly concerning to CCIQ, particularly in the lead up to deregulation.

CCIQ stresses that it is important for the government to increase consumer awareness of the choices available and ensure small businesses have the necessary information and tools to understand and compare offers. Small business energy consumers will require guided education on how to participate in the electricity market ahead of these reforms to ensure that retail prices remain competitive. Small business consumers must be empowered to switch retailer without impediment.

CCIQ would like to note the importance of ensuring there is a robust and transparent monitoring framework in place that protects the long term interests of consumers in Queensland. CCIQ also believes necessary authority should be granted to the QCA to gather appropriate data on consumer involvement with the market, including the contracts consumers are currently utilising.

5.0 Regional competition and application of the UTP/CSO – recommendations 29-35

CCIQ was pleased to note the QPC draft recommendation 32 which provided that a date of no later than 1 July 2019 should be considered for the implementation of a network Community Service Obligation (CSO) and retail competition for regional Queensland. The draft report provides that the most practical approach to maintaining a Uniform Tariff Policy (UTP) and increasing retail competition in regional Queensland would be to provide the UTP CSO subsidy at the Ergon Energy network level.

However CCIQ cautions against changing the application of the UTP to exclude large users from accessing the subsidy. Many perverse outcomes can result if this were to be adopted.

CCIQ is supportive of retaining the UTP to allow small businesses to access the same regulated prices of electricity across all of Queensland regardless of whether the cost to supply is higher for regional customers. CCIQ understands that due to this subsidy, other electricity retailers choose not to

operate in regional Queensland. This is one of the major impediments to competition in regional Queensland.

A network CSO effectively removes for most customers the major existing barrier to the development of regional competition in the retail electricity market.

6.0 Solar Bonus Scheme – recommendation 17

CCIQ commend the QPC on the analysis conducted around options to deal with the Solar Bonus Scheme (SBS) costs. In particular, CCIQ agree with option 3 in the draft report to transfer the costs of the SBS to the State budget. The QPC report identified that:

Removal of the costs of the SBS liability from the determination of electricity prices would overcome the cross-subsidisation of scheme participants by other electricity customers, and directly lower retail electricity prices for all consumers.

CCIQ is disappointed that the State Government already ruled this out before considering the merits of the review.

Currently, payments for the Queensland Government Solar Bonus Scheme are funded through the distribution company's revenue and network electricity prices. This scheme pays eligible customers for the surplus electricity generated from solar energy systems that is exported back into the electricity grid. Under the *Electricity Act 1994 Qld* distributors are required to pay the amount credited to eligible customers through the feed in tariff. The network companies intend to continue to recover payments made under the scheme by passing through these costs to all customers based on a two year lag between the year in which the payments are made, and the year in which the prices are collected. Should the Queensland Government fund these payments in a different manner, the networks proposed that their revenue and network prices would decrease proportionately as a result.

CCIQ would like to propose that the Queensland Government seek to remove the legacy cost of the Solar Bonus Scheme. Queensland small businesses should not have to continue to subsidise the cost of solar usage through their power bills. Queensland small businesses are already heavily burdened by the impost of costs associated with the Solar Bonus Scheme and CCIQ believe it is unacceptable

that they should be responsible for compensating the failure of the distribution companies to adequately forecast demand. The removal of the Solar Bonus Scheme costs would see immediate price reductions for all energy consumers across Queensland. CCIQ urges the QPC consider preventing the distribution companies from recovering these costs from consumers and recommends that these charges be absorbed.

The QPC recommend that the Queensland Government should consider the merits of an earlier end to the SBS than the planned 2028 scheme closure. CCIQ is disappointed that this recommendation is not stronger or more prescriptive. CCIQ believes that the QPC recommendation does not adequately reflect the comments and position that were made within the section of the draft report. CCIQ see this as a missed opportunity by the QPC to provide firm guidance on an option to realise immediate electricity savings.

7.0 Conclusion

Queensland small businesses have been struggling with the weight of rising costs of electricity. CCIQ have participated in numerous processes in an effort to ease the electricity cost pressures on small businesses.

CCIQ urges the QPC to investigate all possibilities when developing options to the Queensland government that improve outcomes for small business consumers. Electricity is an essential input into nearly every good or service and accordingly its price is a key influence on the competitiveness of Queensland businesses.

Primarily, the objective of the QPC inquiry is to seek options that promote the long term interests of electricity consumers, place downward pressure on electricity prices and ensure a dynamic and responsive pricing framework. CCIQ does not believe the recommendations presented by the QPC as they currently stand will achieve these objectives. CCIQ hope the draft recommendations will be strengthened by the final report due May 31 to make a real impact for small business.

In the past 5 years there have been in excess of two dozen reviews conducted by Government on the cost of electricity in Queensland that CCIQ has participated in. Queensland small businesses are coming to the end of their tether with electricity affordability. CCIQ believe it is time for the State Government to show leadership and action on reducing electricity prices for Queensland small businesses.