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Business

## Queensland's Unsustainable Electricity Pricing Methodology

**Submission to the QCA and Queensland Government in  
relation to the 2011-12 BRCI Electricity Price Determination**

10 February 2011

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## 1.0 INTRODUCTION

- 1.1 The Chamber of Commerce & Industry Queensland (CCIQ) welcomes the opportunity to make this submission to the Queensland Competition Authority (QCA) and the Queensland Government in relation to electricity pricing in Queensland and the draft decision on the 2011-12 Benchmark Retail Cost Index (BRCI) for Electricity.
- 1.2 CCIQ is the peak business organisation in Queensland, representing the interests of 25,000 businesses and 135 local Chambers of Commerce across the State (a more detailed overview of CCIQ's membership is provided in Appendix 1).

## 2.0 GENERAL COMMENTS ON ELECTRICITY PRICES AND MARKET

- 2.1 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. It is essential that careful consideration be given to the actual outcomes of the QCA's price reviews.
- 2.2 Queensland's electricity costs represent a major area where we can either stimulate or suppress ongoing economic growth. As with other 'costs of doing business' CCIQ believes we should champion the need to drive them down and be both nationally and internationally competitive.
- 2.3 Unfortunately the current BRCI process promotes and accepts price increases without any commensurate increase in efficiency and productivity within the electricity supply industry as being the norm. As such the BRCI process represents a significant departure not only from what is the real business operating environment at present but also from the reported benefits that the Queensland Government claimed would accrue from market deregulation and greater competition.
- 2.4 CCIQ believes that simply accepting the forward cost and expenditure estimates of energy generators and retailers without consideration of the quality, capacity and service improvements actually being delivered does not achieve the intended objectives of the previous electricity market reforms and compromises the competitiveness of the Queensland economy.
- 2.5 The proposed 5.83% cost increase, whilst modest compared to previous decisions is still a significant increase on the back of the cumulative effect of a nearly 50% increase in the cost of electricity over the past four years. It also leads CCIQ and the business community to question the future of this process when it continues to build electricity costs at a rate far beyond inflation and increases in other commodities and services.
- 2.6 CCIQ also strongly argues that no other business in Queensland nor Australia could report having enjoyed increased profitability and revenue, nor would have been in a position to pass on price increases of this magnitude over the past four to five years. Certainly the tightened consumer spending and depressed business conditions being experienced in Queensland at present are directly related to the increasing cost of living including rising energy costs.
- 2.7 Therefore CCIQ strongly opposes any recommendation that further increases electricity costs for Queensland businesses and the community on the basis that this increase stands to erode business profitability and compromise Queensland's economic recovery.
- 2.8 CCIQ also believes that the current approach has proven itself to be esoteric with little relevance to real world business practices and that a new approach to the determination of future electricity prices needs to be explored. In theory the BRCI process was a methodical and transparent means of calculating charges, however in practice it has resulted in pricing outcomes that are unsustainable to the Queensland business community. Queenslanders will not accept continued energy cost increases when there is no commensurate improvement in infrastructure, reliability and service.

### 3.0 BUSINESS VIEWS ON THE ELECTRICITY MARKET

#### Impact of Rising Electricity Prices

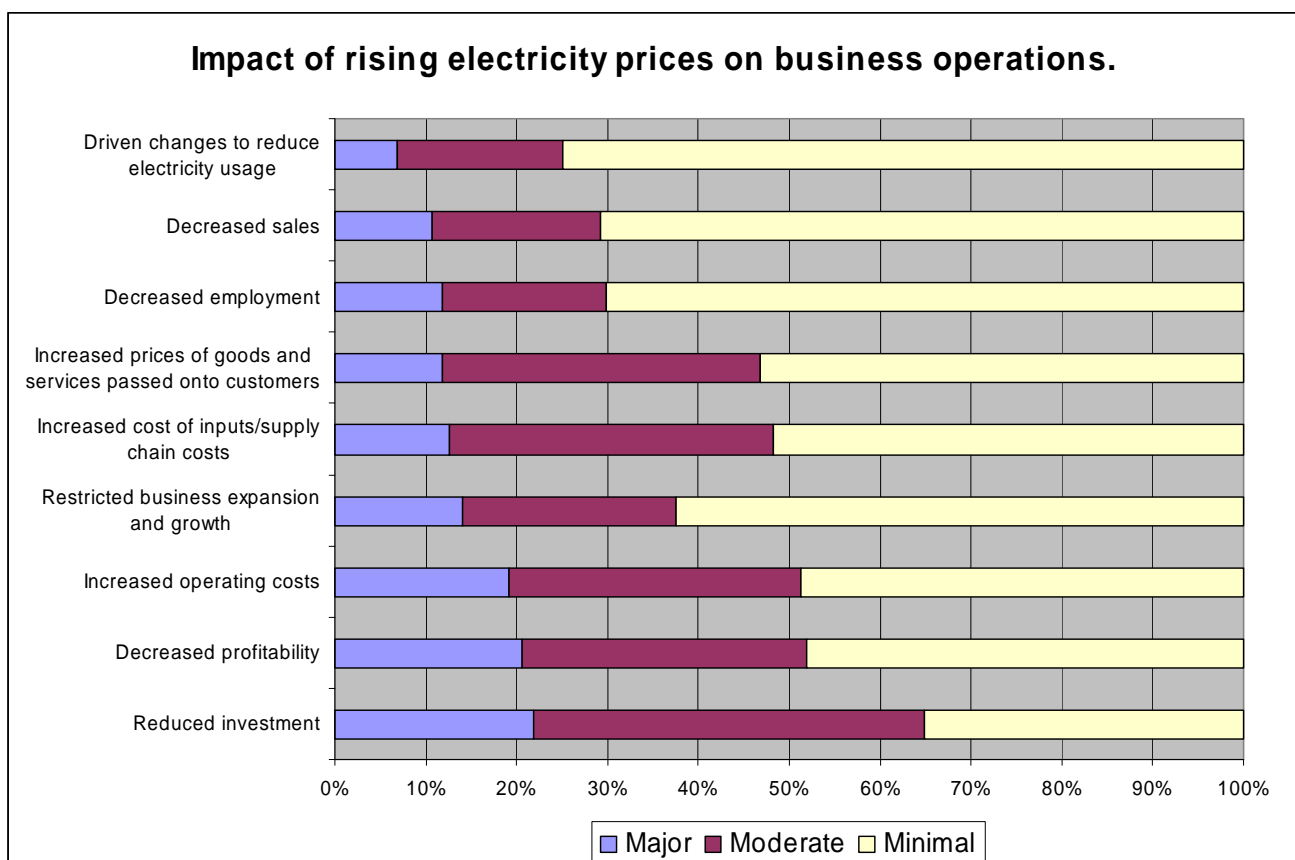
- 3.1 CCIQ recently surveyed its members on the performance of the Queensland electricity market and the impact of successive price increases resulting from the QCA's BRCI decisions. The survey highlighted a high degree of general dissatisfaction with the management of Queensland's energy market and the current cost of electricity.
- 3.2 The majority of Queensland businesses have experienced a rise in energy costs of between ten and twenty per cent per year over the past three years since 2008-09.

#### **Business electricity bill increases in each of the past 3 years**

	0-5%	5-10%	10-15%	15-20%	20-25%	>25%
<b>2010-11</b>	7.6%	19.3%	29.0%	19.6%	10.9%	13.6%
<b>2009-10</b>	11.7%	33.3%	29.2%	13.7%	7.2%	4.9%
<b>2008-09</b>	25.9%	38.7%	19.3%	9.1%	3.8%	3.2%

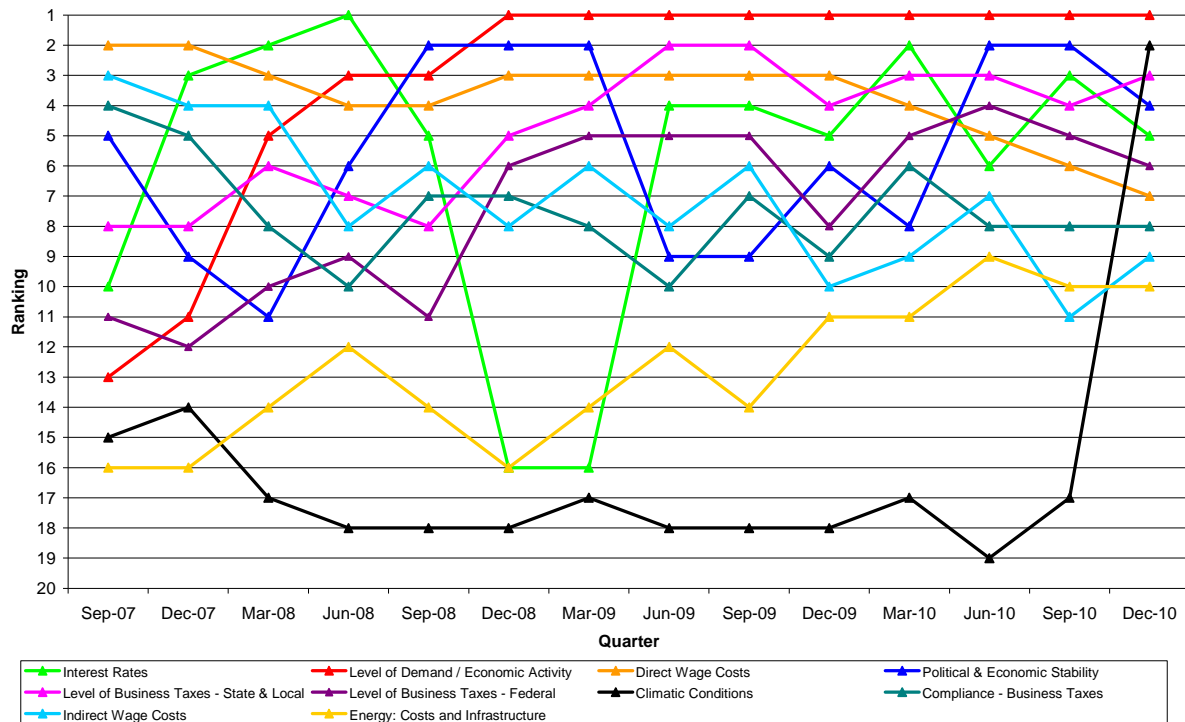
Source: CCIQ Pulse Survey Hot Topic Question – Jan 2011

- 3.3 These cost increases have had a significant impact on business investment and profitability. Notably rising energy prices have also increased the operating costs for business and the costs of supply-chain inputs. Rising business costs have been passed through to consumers where possible through increased prices of goods and services sold, so Queensland's energy market has indirectly contributed to the inflation and interest rate rises that are currently crippling businesses and householders alike.



Source: CCIQ Pulse Survey Hot Topic Question – Jan 2011

3.4 Energy costs are also becoming a key factor limiting business and economic growth in Queensland. As the Pulse Major Constrains on Business Growth graph shows, since December 2008 energy costs have been steadily moving up the list as a major constraint reflecting the concern across the business community regarding the effect of three consecutive years of significant energy price rises.



Source: CCIQ Pulse Survey of Business Conditions – Jan 2011

### Business Rating of the Electricity Supply Industry

3.5 Despite increased costs, Queensland businesses have not witnessed any commensurate improvement in the performance of the energy sector. Businesses rated the reliability of supply as being good, commenting that there had been minimal interruptions to supply other than as a consequence of weather conditions such as storms and floods and that supply was generally returned within a reasonable period of time.

### Business Rating of Queensland's Electricity Industry and Performance

	1 - Very Poor	2 - Poor	3 - Average	4 - Good	5 - Very Good	Average Rating
<b>Price</b>	<b>38.6%</b>	29.1%	27.1%	4.4%	0.8%	<b>1 - Very Poor</b>
<b>Service</b>	19.9%	25.7%	<b>31.9%</b>	18.3%	4.2%	<b>3 - Average</b>
<b>Reliability of Supply</b>	7.9%	15.3%	31.0%	<b>33.4%</b>	12.4%	<b>4 - Good</b>
<b>Products</b>	13.4%	23.2%	<b>43.8%</b>	15.7%	3.9%	<b>3 - Average</b>
<b>Planning and Investment (Past)</b>	<b>36.5%</b>	28.2%	26.7%	7.8%	0.8%	<b>1 - Very Poor</b>
<b>Planning and Investment (Current)</b>	<b>33.0%</b>	28.4%	29.7%	8.4%	0.7%	<b>1 - Very Poor</b>

Source: CCIQ Pulse Survey Hot Topic Question – Jan 2011

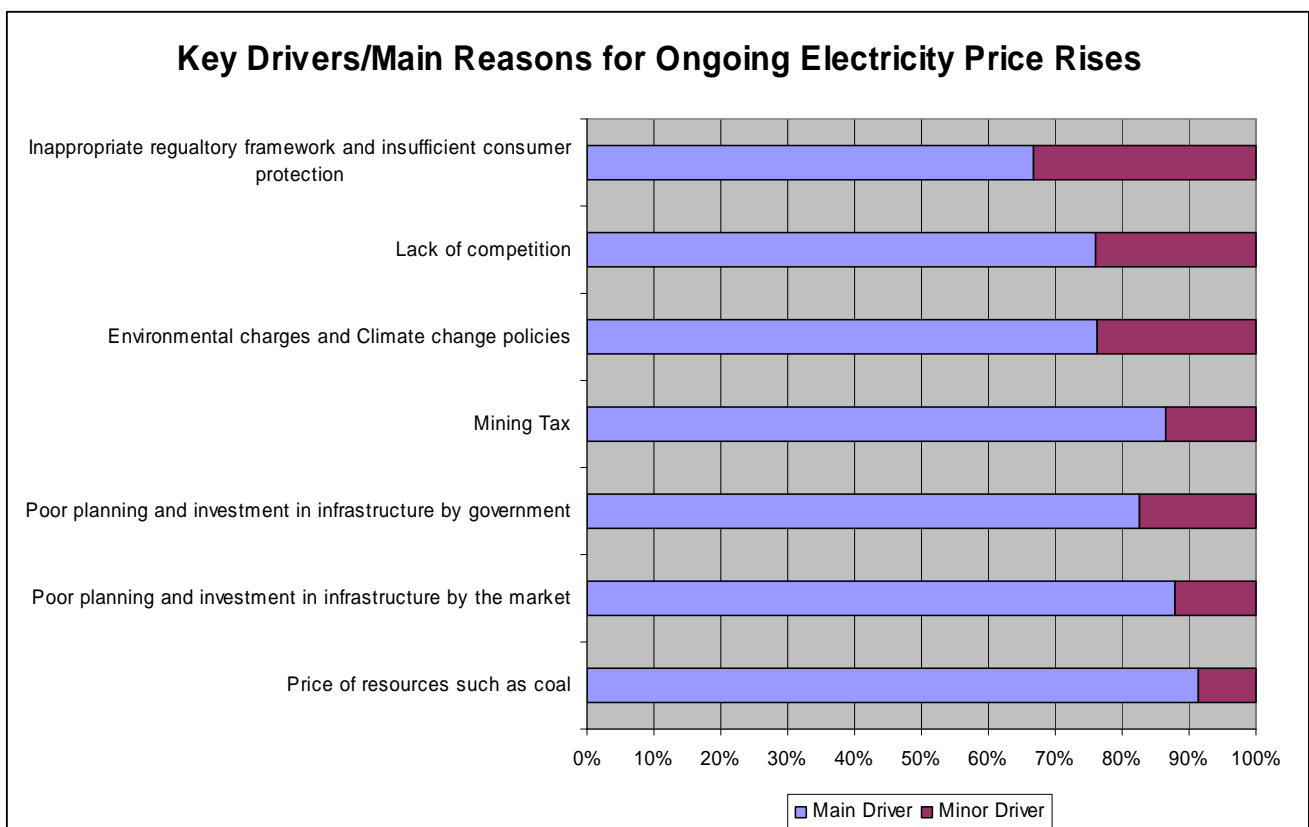
3.6 However the energy market was rated as only average in terms of the service and products provided to its customers. General comments included difficulty in speaking to their energy supplier, long waiting times when making phone calls and delay in attending to enquiries and disputes over services and bills. There was also a high degree of dissatisfaction with the availability and access to alternate/green power supply options.

3.7 Additionally Queensland Businesses rated the planning and investment (past and current) by the energy market as poor. Respondents believed there remained a significant lack of investment in new infrastructure and in infrastructure maintenance and a lack of transparency in the planning by Queensland's generators and distributors. A further significant concern was despite a significant proportion of the previous price increases being attributed to requirements to invest in and provide renewable and greener energy, there remained very little opportunity for consumers to access renewable/green supply at a reasonable cost.

### Reasons for Electricity Price Rises

3.8 Queensland businesses were strongly of the opinion that the energy market is struggling to recover from years of poor planning and infrastructure investment handed to them by the Queensland Government after deregulation. Accordingly Queensland businesses believe that the Queensland Government still has a major role in supporting the growth and investment in energy infrastructure.

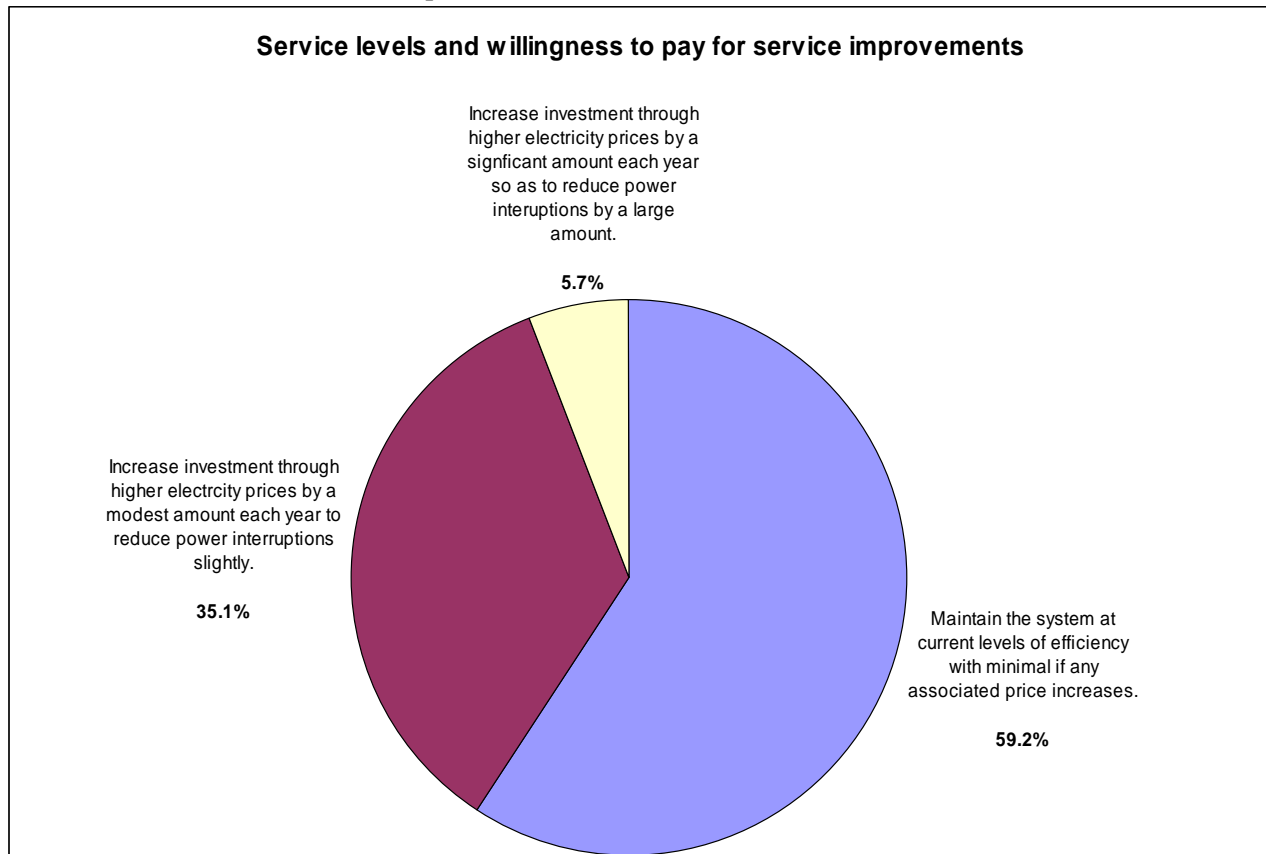
3.9 When questioned about what they believed to be the main reasons for ongoing electricity price rises, the majority of businesses acknowledged that the price of resources such as coal was a contributing factor and not surprisingly a significant number of respondents believed that the proposed mining tax would put further pressure on the cost of electricity generation and supply. Again poor planning and investment in infrastructure both by the energy market and the government were identified as key drivers for increased energy costs.



Source: CCIQ Pulse Survey Hot Topic Question – Jan 2011

## Balancing Price Performance Outcomes

3.10 Queensland businesses indicated a strong preference for maintaining the system at current levels of efficiency and the associated stabilisation of energy costs. Only 5 per cent of respondents supported the current approach where significant investment and system improvement costs have been passed onto customers through consecutive electricity price rises. This gives further weight to CCIQ's assertion that the BRCI methodology is disconnected from the expectations of electricity customers and has little relevance to real world business practices.



Source: CCIQ Pulse Survey Hot Topic Question – Jan 2011

3.11 In summary CCIQ believes there is only minimal willingness by business to pay an additional amount to secure improvements in electricity supply

## **4.0 SPECIFIC ISSUES RELATING TO THE 2011-12 BRCI DRAFT DECISION**

### Maximum Allowable Revenue (MAR) and Net Retail Margin (NRM)

4.1 CCIQ strongly disagrees with previous decisions that have awarded Queensland's energy market significant revenue and profit margins. Indeed in 2009-10 the two Government-Owned Corporations, Energex and Ergon enjoyed profit increases of 44% and 28% respectively. Equally in the retail sector, Origin increased profitability by 10% and AGL by 3.2% in the last financial year. These profits come at the expense of the struggling Queensland business community who over the same period have experienced subdued business conditions and negative profit growth.

4.2 While the QCA has no direct influence over the AER's determination for MAR for the energy generation and transmissions companies, the authority does determine the net retail margin for the retail market. Equally CCIQ believes the QCA may have within its jurisdiction the ability to apply a revenue and profit discount to factor in broader statewide economic conditions that would better align this sector with the rest of the business community.

4.3 Accordingly CCIQ would support a revision downwards in the proposed BRCI determination.



## Australian Government's Renewable Energy Target (RET) Scheme

- 4.4 CCIQ have been advised that a number of our members have received written advice from energy retailers of electricity rate increases due to changes to the RET and that would commence as at 1 January 2011. CCIQ are concerned that the energy market may be acting outside of regulated and approved BRCI processes by passing on these costs to customers. CCIQ also argue that if the energy sector are already recouping costs resulting from changes to the RET, then RET costs should not be factored into the BRCI decision for 2011-12 and accordingly the proposed price increase would be only 2.92%, a rate much more acceptable to the business community.
- 4.5 Additionally, CCIQ would argue that all other sectors of the business community must generally absorb the costs of red tape and government regulation and on this basis do not support the full pass through of the costs of the expanded RET believing the energy sector should accept a proportion of the business risk associated with the RET program.

## Service Levels and Retail Costs

- 4.6 CCIQ has for the past three consecutive years advocated that flow throughs of additional revenue through the network component of the BRCI be explicitly linked to performance improvements by the electricity distributors and retailers as occurs in other jurisdictions by respective Energy Regulators.
- 4.7 As suggested in Section 3, Queensland businesses surveyed as part of CCIQ Pulse Hot Topic question on Energy, expressed dissatisfaction with the management, planning and investment and service levels of Queensland's energy market. This evidence suggests that 'minimum service standards' are not delivering a level of performance that could otherwise be achieved by a formal linkage of increased revenue with increased service performance.
- 4.8 Again CCIQ recognises that cost, expenditure and revenue allowances for generation and transmission are approved through separate processes to the BRCI, however where it is within the jurisdiction of the QCA, the pass through rates for network and retail costs should factor in a performance outcome such that only those businesses making service improvements can benefit from the full BRCI decision.

## **5.0 OTHER ISSUES**

### Renewable Energy Supply Issues

- 5.1 As suggested in section 2.0, Queensland businesses surveyed as part of CCIQ Pulse Hot Topic question on Energy, expressed dissatisfaction with the investment and diversification into renewable energy sources by the Queensland energy market. Queensland businesses are right to be concerned by the fact that they are paying higher energy costs due to the RET and other environmental programs while being provided limited opportunity by the energy sector to convert to energy supply sourced from renewable energy sources. Additionally where opportunity is provided to access full or partial renewable energy supply, it comes at a significant premium and does not allow businesses to reduce energy costs.
- 5.2 A further issues raised by respondents to the Pulse Survey was the lack of system mechanisms to support and encourage electricity consumers to self-supply and disconnect from the grid/return energy to the grid. There is concern that at present the discount rate for those generating electricity and/or supplying it back into the grid is not proportionate to the actual negative rate of energy supplied from the grid. A key aspect of this issue is that the existing tariff and pricing structure does not allow for a full proportionate discount for those customers with self-generation facilities.



## BRCI Methodology

- 5.3 CCIQ considers that the current BCRI methodology has failed to provide the State's businesses with a reasonable level of price predictability and certainty. Given that this outcome is a critical one for the business community, CCIQ agrees with the QCA's observation that a more fundamental overhaul of the price setting approach is warranted.
- 5.4 CCIQ acknowledges that subject to the requirements of the Uniform Tariff Policy (UTP), there needs to be some degree of cost reflectivity in the State's electricity prices in order to ensure that retailers earn an adequate return on capital and to encourage further investment in the State's electricity network and generation capacity. Better cost reflectivity may also encourage more efficient consumption thereby assisting in the management of demand and potentially reducing the need for costly new investments in generation capacity. That said, CCIQ notes that any shift to cost reflectivity will potentially result in higher prices for some consumer groups and where those cost increases are substantial CCIQ considers that there is a strong argument for gradually transitioning those customers to the higher cost-reflective price levels rather than just immediately shifting them across on the introduction of the new pricing arrangements. This will provide customers with an adequate opportunity to adjust to the new price reality and to potentially implement strategies which will minimise the impacts.
- 5.5 The QCA in its final report of the review of Review of Electricity Pricing and Tariff Structures, made this very recommendation – that a new tariff structure be 'cost reflective to the extent possible'.

## Review of Tariff Structure

- 5.6 CCIQ is disappointed that the Queensland Government has failed to act on the recommendations of the final report of the review of Review of Electricity Pricing and Tariff Structures completed by the QCA and handed to the Minister in late 2009. A new tariff structure in Queensland may potentially improve the electricity pricing structure and offer cost reduction opportunities to electricity consumers.
- 5.7 In particular CCIQ supports the recommendation that a new tariff structure accommodate access to time of use tariffs for those customers that have interval meters installed, but would go further to recommend that, as has been the case in Victoria, the Queensland Government accelerate the roll-out of interval meters to replace all existing accumulation meters especially for the business community.
- 5.8 Time of use tariffs would be a significant advantage to those businesses, who predominately utilise electricity during off peak times (business hours). Those businesses who are lower use customers or who can adjust their electricity use may even achieve cost savings from this tariff structure (their tariff/price during off peak periods would no longer be subsidising peak use consumers who utilise electricity outside of normal business hours).
- 5.9 CCIQ urges that Queensland Government and the QCA to act on the intent and recommendations of the Review of Electricity Pricing and Tariff Structures and introduce a more appropriate set of regulated retail tariffs for Queensland.

## 6.0 SUMMARY OF RECOMMENDATIONS

- 6.1 CCIQ strongly opposes any further increases in electricity costs for Queensland on the basis that it stands to further erode the extremely volatile business environment that currently exists and compromises Queensland's flood recovery. A more modest price change, reflecting revised state economic growth forecasts, of between 1 – 2% would be an acceptable outcome.
- 6.2 Given the economic and business climate in Queensland, the energy sector should equally be pursuing cost cutting measures and the QCA should apply a revenue and profit discount factor and not award the energy sector revenue and retail margins disproportionate to the rest of the business community. A revision downwards of the proposed BRCI determination is therefore warranted.
- 6.3 The QCA review the energy sectors application and pass-through of RET costs occurring outside of the BRCI process and make a determination regarding the inclusion or otherwise of these costs in the calculation of the 2011-12 BRCI.
- 6.4 The pass through rates of network and retail costs should factor in performance outcomes such that only those businesses making service improvements can benefit from the full BRCI decision.
- 6.5 Greater transparency of investment decisions into renewable energy sources is needed and mechanisms and systems to improve access for customers to renewable energy and off-grid supply must be developed.
- 6.6 A fundamental overhaul of the BRCI price setting methodology including consideration of customer expectations and sustainability of this approach much to completed immediately following the final decision for 2011-12 and prior to the commencement of the 2012-13 review.
- 6.7 The Queensland Government and the QCA must act on the intent and recommendations of the Review of Electricity Pricing and Tariff Structures and introduce a more appropriate set of regulated retail tariffs for Queensland. CCIQ has a preference for the introduction of a time-of-use tariff structure, the roll-out of interval meters, and the development of an appropriate system for the return of customer-generated energy to the grid.

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# > Chamber of Commerce & Industry Queensland Profile



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Chamber of Commerce & Industry Queensland is the state's peak industry body, representing the interests of 25,000 businesses, across all industry sectors and in all regions. We champion business to gear up for the future today with the right set of solutions for success in tomorrow's world.

Chamber of Commerce & Industry Queensland is a non-government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

Chamber of Commerce & Industry Queensland is called upon by thousands of enterprises to deliver a broad range of business services including business representation, business compliance, business skills, business safety, business sustainability, business connections and business globally. We are commercially-minded and expertly-qualified.

Chamber of Commerce & Industry Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

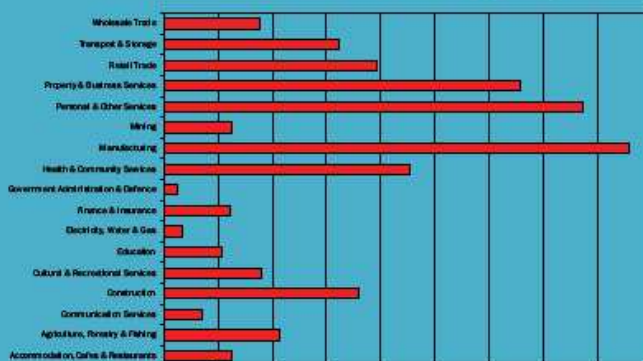
Chamber of Commerce & Industry Queensland has in excess of 3,700 members across 8 regional offices and represents over 135 local chambers of commerce and 60 trade and professional associations.

Our vision is to invigorate business success in Queensland.

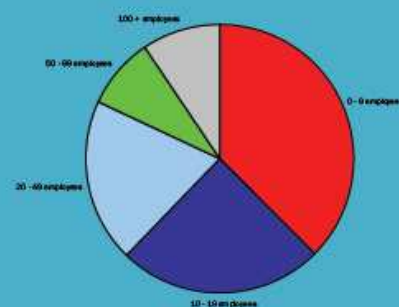


The diversification of Chamber of Commerce & Industry Queensland's membership is illustrated in the following charts:

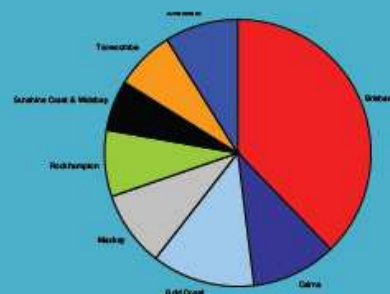
Commerce Queensland members by Industry



Commerce Queensland members by Employment Size



Commerce Queensland members by Region





# CCIQ – Solutions for Business Success

Chamber of Commerce & Industry Queensland (CCIQ) represents over 25,000 businesses in Queensland. We are committed to ensuring our customers have the right tools to achieve real results in their business.

At CCIQ we harness the results of our research, lobbying and policy achievements to offer the best possible business support solutions to invigorate growth statewide, nationally and globally. By joining CCIQ you support the organisation that supports the Queensland business community.

Membership also ensures you are an integral part of an organisation dedicated to providing first class services to assist Queensland industry with relevant and practical business solutions. Not only is membership your connection to information, industry best practice, training and consultancy services, it also allows you to take advantage of the many benefits CCIQ offers.



Our success is success for all Queensland businesses.

Chamber of Commerce & Industry Queensland members are informed and connected business people. Whether you run a small business or form part of a large industry sector, call us today to take advantage of the opportunity to associate yourself with the CCIQ brand.

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