

The 30 Year Electricity Strategy – Queensland State Government Directions Paper



CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

16 January 2013

1.0 Introduction

- 1.1 As the peak business organisation in this State, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide comment on the State Government's Directions Paper – 30 Year Electricity Strategy.
- 1.2 CCIQ recognises the vital role that energy plays in building and sustaining the Queensland economy and consequently has been actively involved in facilitating discussion and understanding of energy issues in Queensland. CCIQ believes itself to be well placed to provide representative and informed comment on the Directions Paper.

2.0 An 'Efficient, Productive and Sustainable Electricity Supply for Queensland'

- 2.1 In addition to this Submission CCIQ has also attached a copy of its Electricity Blueprint 'An Efficient, Productive and Sustainable Electricity Supply for Queensland'. This blueprint provides a unique business perspective on the design, planning and management of Queensland's energy sector and electricity market that was released prior to the State Election. This document has particular relevance to the Directions Paper.
- 2.2 CCIQ believes that the electricity supply industry must deliver greater price competitiveness, certainty; operational efficiency; strategic future focused planning and investment; service excellence; and be integrated and harmonised with more energy efficient policies. Most importantly, it must be supportive of continued business and economic growth in Queensland.
- 2.3 CCIQ's energy policy and our Blueprint covers three important issues as it relates to the future competitiveness of Queensland businesses:
 - a) Business community concern at the impact of continued increased electricity prices on Queensland jobs and investment caused through the framework in which energy prices are set;
 - b) The security and cost of supply in light of emerging economic and environmental challenges, coupled with the need to plan for future infrastructure, a diversified energy mix and low carbon economy; and
 - c) Identified opportunities and energy efficiency schemes which will reduce demand whilst delivering innovative and productive growth opportunities for the Queensland economy.
- 2.4 The findings in this report clearly indicate that encouraging a more sustainable and competitive energy sector and electricity market in Queensland, will provide a platform for businesses to operate in a more competitive and sustainable environment for the next 30 years.

3.0 Ensuring Competitive Electricity Prices

- 3.1 Queensland businesses believe energy related matters to be of crucial importance in their operating environment where electricity costs are a significant business input and impact on investment decisions. Consistently CCIQ surveys have identified the cost of energy as a major constraint on business growth. It is essential that careful consideration be given to Queensland's future energy arrangements and our resultant network be reliable but also price competitive.
- 3.2 Electricity is an essential input into nearly every good or service and accordingly its price represents a key influence on the competitiveness of Queensland businesses. Given the

significant cost increases in the energy sector over recent years, including a 64 per cent increase in electricity prices over a five year period, it is not surprising that the cost of energy is the second most significant issue for all Queensland business, and is the most significant issue for small businesses¹.

Year	% Increase	Price change based on \$2000 average electricity bill (compounded annually)
2007-08	11.37 %	+ \$227
2008-09	9.06%	+ \$201
2009-10	11.82%	+ \$286
2010-11	13.29%	+ \$360
2011-12	6.60%	+ \$202
Total	64.02%	+ \$1,280
Compounded 5yr		
2012-13	See footnote	

Source: Queensland Competition Authority

Footnote: Price change for business in 2012-13, depending on tariff and electricity usage profile range from -15% up to 20%. However for those 'large' (>100 MWh) energy business in Energex (SEQ) who no longer have access to regulated tariffs who were forced to shift to market contracts price increases s range from 20% up to 120%.

- 3.3 A number of factors are placing upward pressure on the cost of supplying electricity including the cost of fuel sources, increasing energy demand, network maintenance and upgrading and policy interventions to reduce emissions. These pressures are likely to intensify over the coming 30 years meaning that the energy prices are likely to increase further.
- 3.4 CCIQ firmly believes that ongoing price increases are unsustainable. Queensland businesses cannot continue to absorb these additional costs without sizable reductions in employment and/or economic output and ultimately business closures occurring. Therefore efficient planning and management of the energy sector and emerging issues such as climate change mitigation strategies and energy efficiency are of critical importance if Queensland electricity prices are going to be sustainable and competitive over the next 30 years.
- 3.5 Queensland must strive to keep costs as low as possible in the future to sure up a competitive energy sector and economy both nationally and internationally.

Recommendations: The State Government ensure wherever possible that electricity prices are competitive and sustainable;

- 3.6 To this end the directions paper should note:

3.6.1 **Competition:** CCIQ believes sustainable competition to be vitally important in ensuring competitive electricity prices. Ultimately it is far better for Queensland energy prices to be determined via market mechanisms than by pricing inquiries by an independent body. For this reason the State Government must do all that is possible to continue to facilitate competition in Regional Queensland and ongoing full competition in SEQ.

3.6.2 Electricity Pricing Methodology: The Queensland Competition Authority has developed a new price setting methodology and tariff structure for regulated tariffs in Queensland and has recommended a cost-reflective network (N) + retail (R) cost build-up approach and a shift to a block tariff structure. CCIQ supports the general direction of these reforms and encourages the State Government to ensure that wherever possible the electricity supply industry is as competitive and efficient as possible. CCIQ firmly believes that the future methodology for setting regulated retail prices has an opportunity to address the concerns of business (including prices rises, the efficiency, productivity, and performance of the electricity industry over recent years)

Recommendation: Ensure future regulated pricing methodology reflects as closely as possible a market based approach and encourages efficiency and performance improvements by not overcompensating market participants through unnecessarily high retail margins.

3.6.3 Reliability vs Price: An overwhelming message from Queensland business operators is that those businesses that have experienced minimal supply problems have no propensity to pay for any better performance outcomes or alternatively progressive investment in the network. Those customers who have experienced interruptions report only some willingness to pay modest price increases for improvements in supply. The challenge for the State Government is to find the most effective and efficient way of improving the service for those customers most strongly impacted by lower levels of performance. Accordingly this highlights the importance of linking additional revenues to performance improvements. This point is not to say that the State's network does not require investment but as described in recent media coverage Queensland does not need a 'gold plated' electricity network.

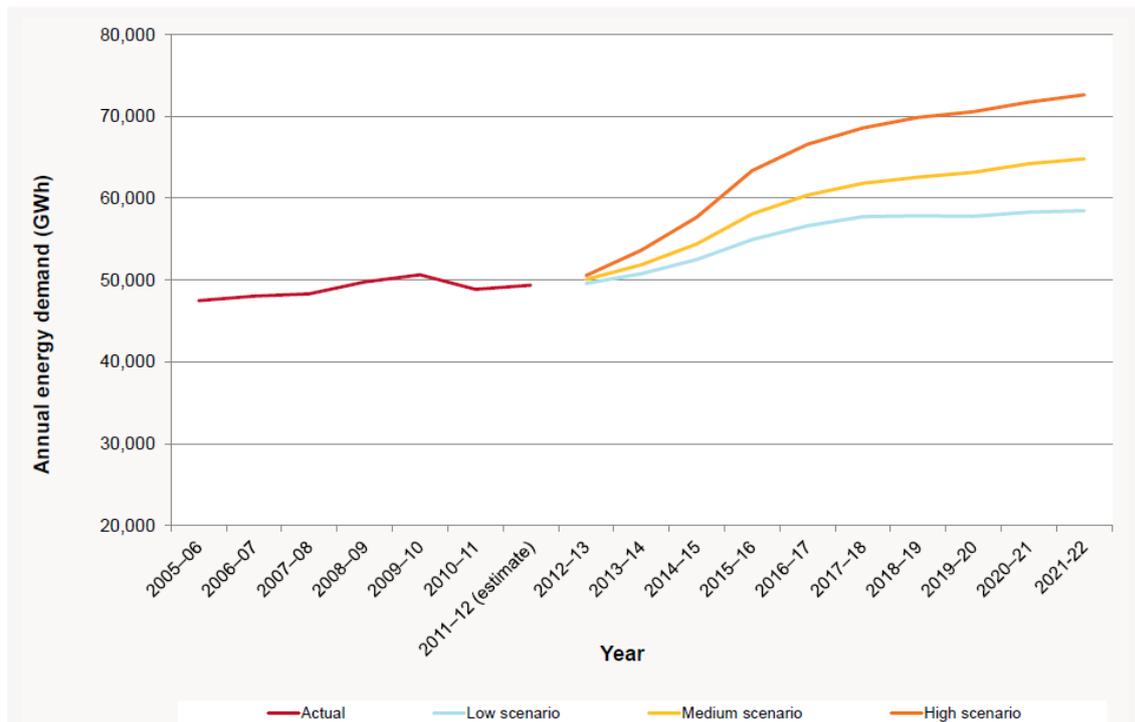
Recommendation: In terms of trade-off between price competitiveness and network reliability over the short to medium term the State government should strive for price stability as the priority.

3.6.4 Lifting Network Performance Standards CCIQ is of the view that maintaining Network expenditure at current levels would inevitably deliver declining performance and lead to longer term problems. Accordingly CCIQ recommends ongoing investment in network but with a strong caveat, payments to distribution companies must be linked to improved system performance. The State's transmission and distribution companies are naturally in monopoly positions and not surprisingly appear more preoccupied with adequacy of revenue than competitive pricing issues. Investment should be based on commensurate improvement in measures such as system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI) and customer average interruption duration index (CAIDI) measures. Accordingly CCIQ recommends the flow throughs of additional capital expenditure and network component be explicitly linked to performance improvements for Energex and Ergon as occurs in other jurisdictions by respective Energy Regulators. The performance of Energex and Ergon should they want additional revenues must be benchmarked across time and across States to ensure improved performance standards. Our future must be more than just simply rubber stamping capex pass throughs for distributors. There is considerable need for greater accountability and efficiency from the State's electricity distributors. CCIQ supports the concept that electricity companies in accepting funding agree to specific performance targets and in doing so form a regulatory contract to deliver services at a given price and service level.

Recommendation: Additional Revenue for distribution companies must be linked to improved performance measures.

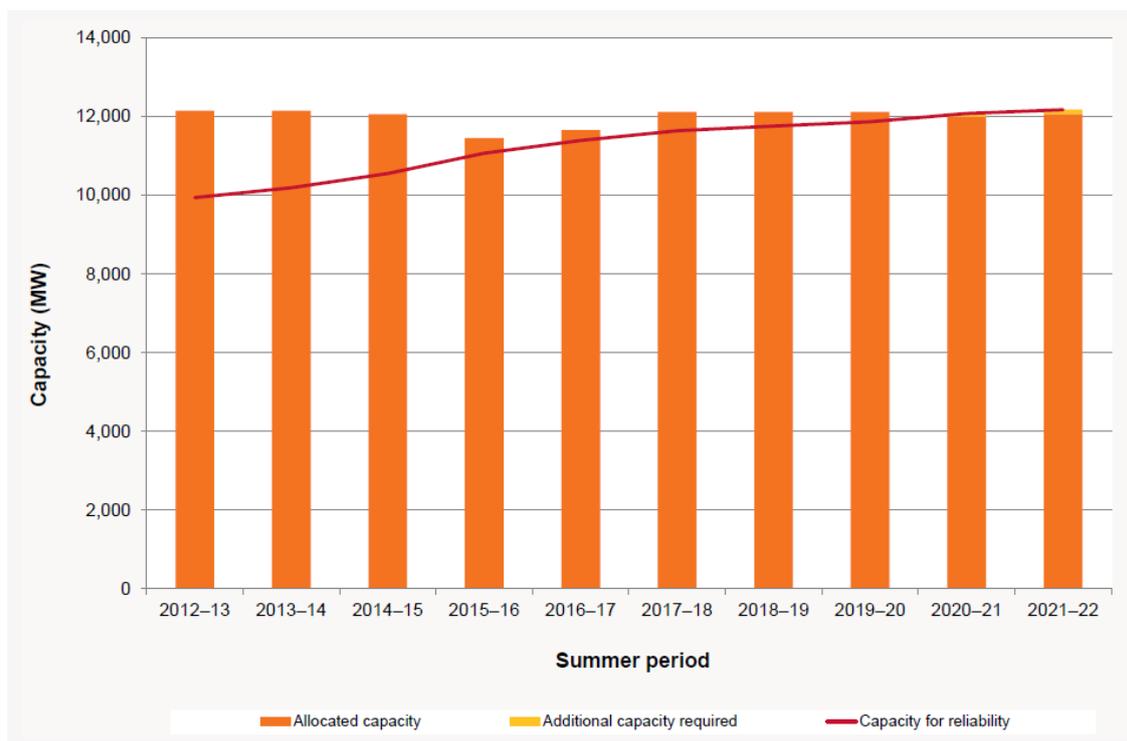
4.0 Planning - Security of Supply

4.1 The State Government must adequately plan for and manage the growing energy needs associated with strong population and economic growth. The Queensland business community firmly believes that the previous State Government and the Queensland electricity supply industry of which the Queensland Government is a major owner/shareholder has failed to adequately plan for and manage the growing state's energy needs. Indeed much of the recent explosion in electricity prices is a result of playing catch up for underinvestment in previous years. For this reason CCIQ is very supportive of the State Government's '30 Year Electricity Strategy'.



Source: Australian Energy Market Operator 'Statement of Opportunities' 2012

- 4.2 Australian Energy Market Operator Reports have demonstrated a failure to proactively plan for future energy demand growth and encourage and support increased investment in Queensland's energy sectorⁱⁱ.
- 4.3 To avoid this shortfall Queensland will require new generation or demand-side investment over the next 30 years. This presents a significant challenge given the long lead and development times required for such significant infrastructure developments in the state.
- 4.4 The most recent AEMO report indicates that under the medium growth scenario, Queensland reaches generation shortfall in 2020-21 (or four years earlier if under a high scenario), requiring 79 MW of new generation or demand-side investment to delay the shortfallⁱⁱⁱ, compared to the 2011 ES00's projected LRC point in 2013-14. This change in timing is mainly due to the reduced maximum demand projections since 2011 which in plain English terms is the amount of demand from the Queensland economy. Quite clearly the recent deterioration of the Queensland Economy and the unexpected proposition of a resources boom perhaps coming to an earlier and lower end have influenced the LRC point.



Region	Low scenario		Medium scenario		High scenario	
	LRC point	Reserve deficit (MW)	LRC point	Reserve deficit (MW)	LRC point	Reserve deficit (MW)
Queensland (summer)	>2021-22	-	2020-21	79	2016-17	93
Queensland (winter)	>2022	-	>2022	-	2019	36

Source: Australian Energy Market Operator 'Statement of Opportunities' 2012

- 4.5 The emergent generation shortfall will be sooner or later dependent on the level of economic growth over the coming 30 years. This is hard to predict but the one thing that is certain is that we will be in deficit if we do nothing in the short term.
- 4.6 The strategy used by the previous Queensland Government for managing the energy challenges associated with a growing population and industry and economic growth was to institutionalise energy efficiency, penalise high energy users through higher prices and avoid unnecessary infrastructure investment.
- 4.7 Diversifying Queensland's energy sources to include greater renewable generation capacity and funding a range of demand management initiatives are important priorities. However, planning for our future energy infrastructure is also important and needs to form part of a wider strategic plan for the economic development of the State. Energy, being such an important part of our economic development, should form the basis for longer term planning around issues such as regional development, water, project approvals, taxation, and labour and skills shortages. This can only be achieved if the separate areas of government responsible for energy policy, industry development, planning and infrastructure, climate change and emissions management and renewable energy are more closely aligned.
- 4.8 It is also important to recognise that energy diversification is not limited to developing clean energy sources or alternative fuels, but should also pursue diversity in the number and location of energy sources, both traditional and clean. Regional energy networks in particular need greater attention. The majority of Queensland's electricity generation infrastructure is located in

central and southern parts of the State. This not only escalates the cost of transmission and distribution as extensive networks are required to provide electricity across the grid to meet the needs of growing regions, but also creates challenges for the continuity, security and emergency planning aspects of energy infrastructure. Furthermore the debate about the appropriateness of nuclear energy in Queensland must also be addressed as part of a 30 year vision. Nuclear power is a mature technology that is widely used in other countries yet is overlooked in Australia. This oversight must be explored and addressed.

Recommendation: CCIQ has previously recommended the development of a long-term energy policy complemented by a strategic energy infrastructure plan for Queensland. Accordingly CCIQ commends the State Government on the development of the 30 Year Electricity Strategy.

Recommendation: Queensland's energy policy and infrastructure plan must focus on increasing energy diversity by setting an efficient regulatory framework that reduces barriers to the exploration, development and take-up of all energy sources and transport fuels.

5.0 Supporting Business Energy Efficiency concurrently with a Removal of a Carbon Constraint

5.1 The State Government must make business energy efficiency a high priority as it not only reduces energy demand and energy costs, but it also leads to significant gains in business innovation, productivity and economic growth.

5.2 The uptake of business energy efficiency is limited to the availability of efficient technologies and production process as well as constrained by the significant cost of plant and equipment. Furthermore a range of barriers continue to inhibit take-up, particularly by smaller and medium-sized firms. This includes existing and conflicting regulatory frameworks (health and safety and industrial relations requirements place additional restrictions on the ability of businesses to implement energy efficiency measures and manage peak demand), detailed industry specific information on energy efficiency and best practice operations, and most significantly a lack of financial support to adopt and invest in best practice processes and equipment.

Recommendation: The State Government to play a major role in supporting Queensland businesses to adapt to the challenges of a carbon and energy constrained economy and stimulate business demand for energy efficient and sustainable business products and technologies.

Recommendation: The State Government must take immediate action to support business and industrial energy efficiency with a particular focus on encouraging innovation and supporting the adoption of new technologies.

5.3 However in respect to a carbon constrained economy CCIQ wishes to highlight that it is strongly opposed to the Federal Government's Carbon Pricing Mechanism (CPM). CCIQ's Blueprint for Harnessing Queensland's Green Productivity Potential concluded:

- A significant negative impact that a CPM will have on small and medium sized Queensland businesses;
- Limited to no support by Queensland businesses for a CPM;
- Minimal commensurate international action on climate change compared to Australia's proposed CPM;
- Forthcoming loss of international competitiveness if a CPM is introduced;
- Poor trading conditions at present for Queensland businesses with virtually no prospect at passing on associated cost increases;
- Small and medium sized businesses have been missed out in proposed compensation arrangements;
- Significant need for information about the CPM for business: and

- Queensland businesses believe direct assistance to provide alternatives to the CPM that addresses climate change but at the same time sure up economic competitiveness.
- 5.4 Accordingly CCIQ urges the next Federal Government to scrap the CPM until such time as other countries with similar industrial profiles as Australia agree to and implement their own substantive emissions trading arrangements. CCIQ instead maintains that Australia and Queensland should adhere to the following principles when addressing issues on climate change:
- strike a responsible balance between environmental protection, energy security and affordability and sustainable economic growth;
 - place Australia and Queensland on an equal competitive footing with the rest of the world and in particular its major trading partners; and
 - acknowledge that climate change mitigation policy is not simply about putting a cap on carbon emissions, instead it is about low-carbon economy development.

6.0 Specific Responses to Directions Paper Questions

6.1 Are the draft objectives outlined in Figure 5 (page 8) appropriate for the development of the 30-year electricity strategy?

Yes but under 'Customers' particularly for the medium and long terms objectives they overlook the crucial importance of price competitiveness as previously articulated in this submission. In short Queensland is in ongoing competitive both from interstate and overseas competitors for the attraction and retention of business investment and electricity price competitiveness is a core consideration for many commercial and industrial businesses. Accordingly it must be referenced to.

6.2 What drivers will influence Queensland's energy future?

CCIQ believes, that providing Queensland's electricity prices are competitive, it will be commercial and industrial businesses and the economy generally that will influence Queensland's energy future. How Queensland's economy will evolve is hard to predict but as seen by the AEMO information the rate of economic growth will be the biggest determinate of the generation capacity required in the next 30 years.

6.3 What are the key challenges and opportunities across the electricity supply chain that the government will need to consider when developing the 30-year electricity strategy?

In respect to drivers of change and reference to market structure on page 15 the Queensland business community has often supported the privatisation of State owned assets particularly given the resultant impact is superior service quality and lower prices. However CCIQ urges the State Government to ensure that the structural integrity of the State Budget is firstly addressed. Businesses indicate they support asset sales only with stringent conditions including adequate sale price, sufficient service levels and pricing safeguards.

What is abundantly clear is that when asked which option for balancing the budget business prefers, 84% favour finding savings within Government. Only 9% favour asset sales as a first step. These results overwhelmingly demonstrate that before any sale is actioned, the State Government must address operating expenditure and drive for efficiencies in procurement and broader Governance. There is no point selling off assets if the proceeds are only sufficient to pay for two year's interest servicing bill.

CCIQ believes that if the expenditure of State Government is reigned in then asset sales will be supported particularly if the improved outcomes under private ownership are highlighted.

Decisions on whether to privatise an asset or to contract out should be determined according to which form of service delivery represents the best value for money for the community. There should be no ideological presumption either in favour of or against private provision. Sometimes the private sector is more efficient and effective at delivering services, sometimes the government is. These considerations should be the ones guiding whether or not infrastructure is privatised. Of central importance is the fact that the rate of spending necessary for continued infrastructure investment and development in Queensland will not be sustainable without using the Private Sector. Experiences in other States and globally certainly build the case for electricity asset privatisation Queensland.

6.4 Within the engagement and accountability model of customer, market and government, what is missing in the government's vision for a future state?

More specifically CCIQ is particularly pleased given the influencer of electricity prices on economic growth to see page 16 correctly identify '**industry competitiveness at risk**' with 'cost competitive pricing' as the method of ensuring economic growth is encouraged. The importance of this concept cannot be overstated.

In respect to '**Misaligned environmental schemes**' CCIQ notes that Government policies have contributed to costs for the generation, network or retail companies. Many state and national energy efficiency programs exist that either mandate or promote the uptake of energy and resource efficiency generation technologies and products. While the end user of electricity may not directly pay the price for these programs, indirectly (due the policy of full cost reflectivity and the way in which electricity prices are regulated) they increase the operational costs for generators, distribution companies and retailers and consequently drive up the regulated tariff and the price we pay for electricity. Australia cannot double up on a CPM and these policies. A Queensland example that must be discontinued with a CPM in place is the Queensland Gas Scheme and at a Federal level the renewable energy target scheme (LRET and SRES).

Complex regulation: Queensland's energy policy and infrastructure plan must focus on increasing energy diversity by setting an efficient regulatory framework that reduces barriers to the exploration, development and take-up of all energy sources and transport fuels. It must also focuses on developing strategies to deal with disruption to Queensland's energy assets.

Further to **poor infrastructure planning:** As previously stated Queensland's energy policy and infrastructure plan must align with economic planning across government and the separate areas of government responsible for energy policy, industry development, planning and infrastructure, climate change and emissions management and renewable energy to avoid policy fragmentation. Further to this a holistic approach to the Queensland electricity supply industry must also be taken rather than looking at in isolation the generation, transmission, distribution and retail components of the ESI that has often historically occurred.

6.5 What are the possible long-term scenarios for the electricity sector and what broad impacts need to be considered as part of the 30-year electricity strategy?

The State Government must also address the regional cost of delivery and equity issues associated with cross-subsidisation of regional areas and customer classes. CCIQ favours striking a balance outside of Political Policy for achieving cost reflective pricing balanced against protecting the needs of regional Queensland businesses, customers and other disadvantaged Queenslanders through Community Service Obligations.

6.6 What should the government do in the short term to best position the sector for the range of possible future scenarios?

Things that the State Government can do today to ensure our ESI is best placed to deal the challenges that will materialise over the coming three decades include focusing on price competitiveness, ensuring a reliable network, removing regulatory barriers and facilitating private sector involvement in bringing on line additional generation capacity within Queensland particularly north Queensland. Coupling these with planning for the economy's needs to ensure there are no scenarios of demand exceeding supply thereby pushing up price or playing catch up in network investment is also warranted.

6.7 What other questions should be considered when shaping the 30-year electricity strategy?

The energy strategy needs to strike the right balance between actioning urgently needed reforms required for Queensland in the short term with the medium to longer term need to ensure the right capacity, reliability and price competitiveness exists in 30 years' time. The 30 Year Strategy should also include key indicators that the strategy should be judged against with benchmarking of our State's progress conducted regularly.

7.0 Summary

- 7.1 The State Government has a crucial role in helping to shape and secure Queensland's economic future. CCIQ encourages the Department of Energy and Water Supply to consider this Submission and the attached Blueprints. More specifically the importance of energy supply to the future growth of Queensland businesses and in turn their capacity to employ and invest is a crucial issue for our State's future.
- 7.2 The issues raised in this submission should be at the core of any 30 Year Vision. CCIQ welcomes the opportunity to present in person the points raised in this submission. To this end please do not hesitate to contact Nick Behrens General Manager – Advocacy on (07) 3842 2279 or nbehrens@cciq.com.au to arrange a meeting or should you have any questions in relation to this submission.

8.0 Attachments

An Efficient, Productive and Sustainable Electricity Supply for Queensland: Blueprint for design, planning and management of Queensland's energy sector and electricity market

http://www.mycciq.com.au/content/Content_View.aspx?ShowThumbnails=false&MediaDataID=614

Blueprint for Harnessing Queensland's Green Productivity Potential: A CCIQ Business Position Statement on Government's

Carbon Pricing Mechanism http://www.mycciq.com.au/content/Content_View.aspx?ShowThumbnails=false&MediaDataID=613

ⁱ CCIQ's *Big 3 for Business, State and Local Government Election Report, Business Priorities for Queensland's State and Local Governments*

ⁱⁱ *Australian Energy Market Operator 'Statement of Opportunities' 2010, 2011,2012*

ⁱⁱⁱ *Australian Energy Market Operator 'Statement of Opportunities' 2012*