



SUBMISSION TO DEPARTMENT OF INDUSTRY ON THE ENERGY WHITE PAPER ISSUES PAPER

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

7 February 2014

- The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to make a submission to the Department of Industry on the Energy White Paper Issues Paper.
- This submission provides an overview of how Queensland businesses are impacted by the energy sector and provides a response to the proposals the Government has made in the issues paper on the future of the energy sector in Australia and subsequently Queensland.
- As Queensland's peak business body, we wish to work with Government to achieve the best possible outcomes for businesses in this State. There is much to be done to realise the potential of the energy sector to enable Queensland small businesses to make a significant contribution to our economy. In particular, electricity price rises since 2007 are taking a toll on small businesses who are failing to absorb significant operational cost increases.
- The Queensland energy sector is a significant issue for all Queenslanders including SMEs who view the recent electricity price rises as being unsustainable. The efficient planning and management of the energy sector and emerging issues are of critical importance if Queensland electricity prices are going to be globally competitive over the next 30 years.
- It is essential that careful consideration be given to Queensland's future energy arrangements. Today there are a number of issues that must be resolved. Without intervention it is conceivable that electricity prices will continue to rise by the same increases year after year. That is why CCIQ is pleased to see the Federal Government's commitment to the development of an Energy White Paper as part of a broader package of Government reforms.
- Things that Government must do today include addressing price competitiveness, resolve issues affecting the Eastern gas market, give consideration to alternative energy sources, and remove the carbon tax.
- Attached to this submission are the blueprints CCIQ prepared on the [Carbon Pricing Mechanism](#) and the [design, planning and management of Queensland's energy sector and electricity market](#). CCIQ has also attached our submission to the Queensland [State government's 30 year electricity strategy discussion paper](#) in December 2013.

Price Competitiveness

As outlined in CCIQ's submission to the State Government, where electricity prices used to operate as a competitive advantage for Queensland businesses, allowing for significant economic prosperity, they are now seeing businesses silently closing their doors due to an inability to cope with sustained increases.

The recent rises in electricity prices since 2007 are attributed predominantly to network costs. CCIQ appreciates that the Queensland Government responded to pressure for increased reliability standards of electricity and accordingly invested in network infrastructure which operated to secure power supply in instances of outages or high demand. However, as network costs account for approximately 54% of bills and have grown by more than 100% between 2007-08 and 2012-13, CCIQ stresses that there is a need to transition from investing in network reliability to price stability.

Whilst we do not support further investment to continue improving reliability we do not support a relaxation of reliability either. Many of CCIQ's members are unwilling to relax current standards, as reliability of supply is of critical importance to some businesses. It is important to point out Queensland businesses have not witnessed any commensurate improvement in the performance of the energy sector in recent years despite this significant investment. Accordingly, whilst maintaining existing reliability standards, investment should be coupled with defined actions in respect to performance.

Eastern Gas Market

Local gas users, including gas-fired power generators, are finding it difficult to access low priced gas supplies in this environment as demand from the export Liquefied Natural Gas (LNG) sector places increasing pressure on prices. Strong Asian demand and high prices are inducing Australian producers to export their gas. That means local consumers have to pay higher prices. Within the next couple of years, gas prices for households on the east coast, will rise by as much as \$170 a year. Large industrial users of gas will come under pressure from equally significant price increases. Domestic prices of gas have soared and thus gas is not being used domestically as a viable cheaper alternative to replacing coal. Export pricing has led to a huge increase in the domestic gas price. Unfortunately gas is still uneconomic as a replacement for electricity fuel for coal.

In a report prepared by the Energy Users Association of Australia in October 2013 on Upstream Gas Policies for Australia, it was highlighted that Australia has substantial and growing reserves of conventional and unconventional gas, but there has been increasing concern about tight supply and rising prices in the eastern Australian gas market. These developments are largely due to the linkage of eastern Australia's gas market to international energy markets through LNG exports. A robust and effective strategy for ensuring long-term domestic gas availability at competitive prices for end-users should be considered to encourage gas development (exploration and production) whilst at the same time balancing the needs of export markets.

Highlighted in this report were examples of other gas markets operating in the United States of America, Canada, Western Australia and the Netherlands. The United States applies a public interest

test whereby the federal government regulates natural gas exports through licenses. Canada applies a partial market based procedure whereby oil and gas export license applications are assessed by an independent federal regulator solely on whether the quantity of oil and gas to be exported is surplus to Canadian needs. WA has a Reservation Policy whereby project proponents intending to export gas are required to quarantine a proportion of gas production exclusively for domestic use. The Netherlands have a mandatory field development where exploration license holders are subject to 'use it or lose it provisions', requiring mandatory development of gas fields within finite timeframes or else forfeit the licence. The objective of this is to increase domestic gas production.

It is shown that jurisdictions that have adopted open gas markets (as Eastern Australia has done) have tended to become export focused and in the absence of government policy intervention, this could detrimentally impact domestic gas users. If Eastern Australia continues to operate as it has done in maintaining an open market focussed on exporting the majority of gas, domestic prices will escalate further, diminishing the ability for business to afford using gas as an alternative, low carbon emitting energy source. The recent decision of Stanwell Energy to decommission its gas fired Swanbank E power station serves as a timely reminder of the distortionary impact of export prices on domestic energy markets.

The Issues Paper acknowledges that gas prices will continue to rise on the east coast of Australia due to rising costs of production and the fact LNG projects put a higher value on gas. However, simply expanding and developing the coal seam gas (CSG) resources as LNG trains come online, will not suffice in supplying the domestic and international demand and subsequently keeping gas prices low. It is important that the Australian government allows for consideration of other successful gas markets such as Western Australia, Canada, the United States of America and the Netherlands in formulating policy responses for gas operations in eastern Australia.

CCIQ recommends the Federal Government consider export limits to allow for domestic markets to compete. Gas is a low emissions energy source which we should be using more in Australia rather than exporting it to support the sustainability of other countries. At the same time, CCIQ strongly recommends that further investment be made within the energy sector, in particular supporting business and industrial energy efficiency with a particular focus on encouraging innovation, and the adoption of existing technologies.

Alternative Energy Sources

There is no single source of energy that will meet all the needs of every region in Queensland. Instead it is likely to be a mix of energy sources. Some of these technologies are already mature but could possibly be more utilised – hydro, wind, solar and biomass. To date, these energy sources have tended to support base load generators at peak times, rather than act as base load generation itself. Another group of low carbon energy sources are still in the demonstration phase (e.g. solar thermal) or only at the research level (e.g. geothermal dry hot rocks).

There needs to be a comprehensive examination of all possible low-carbon emission energy options. This then needs to be followed up by sufficient research funding and policy commitment to ensure that the optimal mix of energy sources are used in the new low carbon emissions environment. A

number of feasibility and mapping studies for renewable energy source generation have been completed recently and these should now be developed into a framework for priority regional infrastructure projects.

Additionally CCIQ believes there is strong support from the business community for an open and informed debate on the issue of nuclear energy in Queensland. Nuclear power is a mature technology that is widely used in other countries and has low carbon emissions. Despite these credentials, it is currently not being considered as a future energy source at neither a state nor national level. If our governments are serious about reducing carbon emissions and giving Australian households and businesses a realistic choice, then nuclear should at least be included in the debate when looking at the range of options for the next generation of power stations. Addressing social and community fears surrounding the nuclear debate now, will ensure future debates can be conducted with well-informed community participation.

Whilst the Issues Paper discusses the benefits and challenges of the use of nuclear power, it does not specify the government's stance on adopting this energy source as an alternative to other base load generation sources. Additionally the issues paper addresses Australia's responsibility in ensuring Australian uranium be sold to countries committed to peaceful uses of nuclear energy, yet it does not address Australian uranium being used as an alternative energy source within Australia.

CCIQ recommends that the Government facilitate consultation programs for public engagement following independent analysis of costs and benefits of alternative power to better inform public debate. The government should not rule out nuclear power options as an alternative low carbon emitting energy source.

Carbon Tax

CCIQ advocated strongly against the introduction of the carbon pricing mechanism and are pleased to see the Abbott Government's commitment to removing it. While the Queensland business community acknowledges that it has a social responsibility to minimise the impact that its activities have on the environment, overwhelmingly, the majority of Queensland businesses do not support the introduction of the tax, especially in the absence of international agreement and unilateral action to address climate change.

The Queensland Competition Authority (QCA) released its draft price determinations on 11 December 2013, which showed increases of between 10 and 15 per cent for businesses if the carbon tax stays and 5 per cent if it is abolished. Additionally, in its first year the carbon tax also added around \$1.20 per gigajoule to the cost of using gas. This increase is simply unsustainable for businesses to manage and the government must act in repealing the tax. Furthermore, [recent reports have highlighted](#) the minimal decline in carbon emissions despite the carbon tax raising billions of dollars of revenue.

Price increases for business customers from 1 July 2014

Retail tariff	Increase for customers with carbon tax (%)	Increase for customers without carbon tax (%)
Tariff 20 (flat rate)	13.3%	5.3%
Tariff 22 (time of use)	13.0%	2.7%
Tariff 44	14.6%	3.4%
Tariff 45	11.4%	-0.8%
Tariff 46	9.8%	-4.1%

Source: QCA Fact Sheet Draft Decision: Business electricity prices from 1 July 2014

Workforce Productivity and Skilled Migration

The Issues Paper also discusses the difficulties surrounding the lack of a skilled workforce in the energy industry. The issues paper acknowledges the challenges the resources sector is experiencing in relation to accessing and retaining sufficient skilled and semi-skilled workers, as a result of rising labour costs and conditions.

Within the resources sector the upcoming shift from the construction to production and maintenance phase will increase demand for specialist operators including roles that require particular experience. It will be challenging to source many of these experienced workers domestically, which could impact on productivity.

CCIQ asserts that rather than tightening the regulatory framework around 457 visas, and therefore punishing those employers who have genuine skills shortages and participate in the program in good faith, there is a need for better and more effective operation of the program.

It is important to state at the outset that CCIQ’s consultation with and feedback from our members is that they *want* to hire Australian workers. However, skills shortages, particularly in certain Queensland regions and industries, have precluded businesses from using local workers to fully meet their staffing requirements in the short to medium term. This has meant that employers need to consider engaging a skilled foreign worker through one of the various channels of temporary skilled migration. CCIQ therefore supports the continued and extended availability of skilled migration channels into Australia as a means of combatting skills shortages, and 457 visas in particular are the key enabler to this.

Conclusion

CCIQ is confident that the policy recommendations we have provided will assist the Federal Government in preparing a sound basis for the Energy White Paper as part of the broader package of government reforms. CCIQ looks forward to the Federal Government finalising energy market reforms that enable industry and business to compete globally.