

# **SUBMISSION TO DEPARTMENT OF ENERGY AND WATER SUPPLY ON THE 30 YEAR ELECTRICITY STRATEGY DISCUSSION PAPER**

**CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION**

6 December 2013

## CONTENTS

1.0 OVERVIEW.....	3
2.0 ENERGY ISSUES IMPACTING BUSINESS AND THE EFFECT OF THE QUEENSLAND GOVERNMENT PROPOSALS .....	4
2.1 Information and Accessibility.....	4
2.2 Relevance to Business.....	4
2.3 The Immediate Challenge – 1 to 5 years.....	5
2.4 The Future Challenge – 6 to 30 years.....	13
3.0 A FRAMEWORK FOR THE PATH FORWARD: RECOMMENDATIONS.....	15
3.1 Long Term Reform Goal: create an electricity supply system that is resilient, cost effective and customer focussed.....	15
3.2 Short and Medium Term Goals: building the foundation for reform.....	15
3.3 Long Term Goals: the future of the electricity sector.....	17
4.0 CONCLUSION .....	19

## **SUBMISSION – DEPARTMENT OF ENERGY AND WATER SUPPLY 30 YEAR ELECTRICITY STRATEGY DISCUSSION PAPER**

### **1. OVERVIEW**

- 1.1** The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to make a submission to the Department of Energy and Water Supply on the 30 year electricity strategy discussion paper.
- 1.2** 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 its discussion paper on the future of the energy sector in Queensland. Our submission builds on [CCIQ's January 2013 submission to the 30 Year Electricity Strategy Queensland State Government Directions Paper](#).
- 1.3** As Queensland's peak industry 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 keep pace. This in turn impacts on Queensland's economy as increases in the price of power increase the cost of doing business and the cost of goods and services in Queensland. Queensland's small and medium enterprises (SMEs) play a pivotal role in achieving the growth of our four pillar economy.
- 1.4** 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 competitive over the next 30 years.
- 1.5** It is essential that careful consideration be given to Queensland's future energy arrangements. 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 State Government's commitment to the development of a 30 year electricity strategy for Queensland.
- 1.6** Things that the State Government must do today 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.
- 1.7** CCIQ have conducted a number of consultation processes with our members on energy related issues across 2013. CCIQ held a Power Forum and Workshop on 7 November 2013 to engage industry, government and businesses to help inform the basis for this submission. CCIQ have also conducted surveys to establish current attitudes and perceptions on the future of energy. These resources are crucial in enabling CCIQ to

gauge how businesses have been affected by rising electricity costs, and what impact government proposals will have on business profitability in the future.

- 1.8** The factors of significant concern to CCIQ members are the trade-off between electricity price and reliability; government proposals to move to price monitoring in South East Queensland (SEQ); growth of retail competition in regional Queensland; tariff reform; demand management options; the diversification of power generation; solar bonus liability and privatisation of the electricity supply industry government owned assets.
- 1.9** In addition to improving the current operations of the energy sector, it is also necessary to explore alternative options available for Queensland businesses to this end. CCIQ have surveyed businesses on their electricity use, and many reveal that they have done all they can to reduce electricity consumption. Given this trend and in lieu of businesses going off the grid, CCIQ believes the government must investigate options specifically tailored for businesses that seek to improve their overall profitability and viability.
- 1.10** Electricity prices must become a competitive advantage, allowing for economic prosperity. The recent trend of businesses silently closing their doors due to their inability to cope with electricity price pressures must not be allowed to continue.

## **2. ENERGY ISSUES IMPACTING BUSINESS AND THE EFFECT OF THE QUEENSLAND GOVERNMENT PROPOSALS**

### **2.1 INFORMATION AND ACCESSIBILITY**

While there is commitment at both the state and federal levels to reform the energy sector, the Queensland business community continues to confront issues and problems with various elements of the sector, leading to significant levels of business disengagement. The reasons for this include the operation of the energy sector becoming increasingly complex and confusing for consumers to interpret. This in turn limits their ability to negotiate better contracts which may be more suitable for their specific energy needs. Business consumers are not only looking to government to inform and guide their electricity preferences but also to the electricity supply industry.

The energy sector is highly complex and difficult for the average consumer to understand. There are a lack of direct channels of communication between sector representatives and industry. As a consequence, businesses are not aware of alternative options that may be available to them. Businesses are often time poor to research the full extent of options themselves and instead rely on energy brokers or government for information.

### **2.2 RELEVANCE TO BUSINESS**

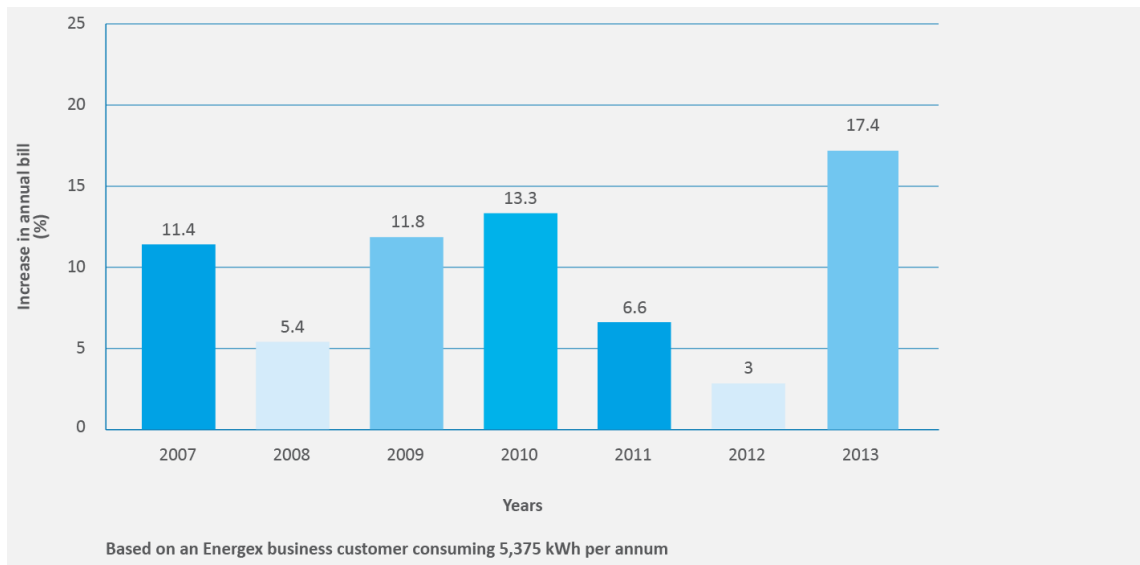
CCIQ celebrates the contribution that small business makes to our State. Small business and their employees are the heart of the Queensland economy and the driving force behind our thriving local communities. Small business makes up 96% of all businesses in Queensland. Furthermore, the small business community makes up a sizeable

proportion of all electricity consumers in Queensland. It is therefore essential and appropriate that business needs are communicated to government and options are negotiated. There is a high propensity for business participation in the energy sector, and a demonstrated willingness to successfully partake in debate. 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. Businesses rightfully expect a reliable, efficient and cost-effective energy sector.

### 2.3 THE IMMEDIATE CHALLENGE – 1 TO 5 YEARS

The immediate challenge for Queensland businesses over the next 1 to 5 years is to address the issue of rising electricity prices. 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 keep them as low as possible and develop an energy sector that is nationally and internationally competitive. While the cost of supply is influenced by a number of factors, it remains that significant ongoing price increases of this nature are unsustainable and threaten to erode Queensland’s economic competitiveness.

**Tariff 20** Source: QCA 2013

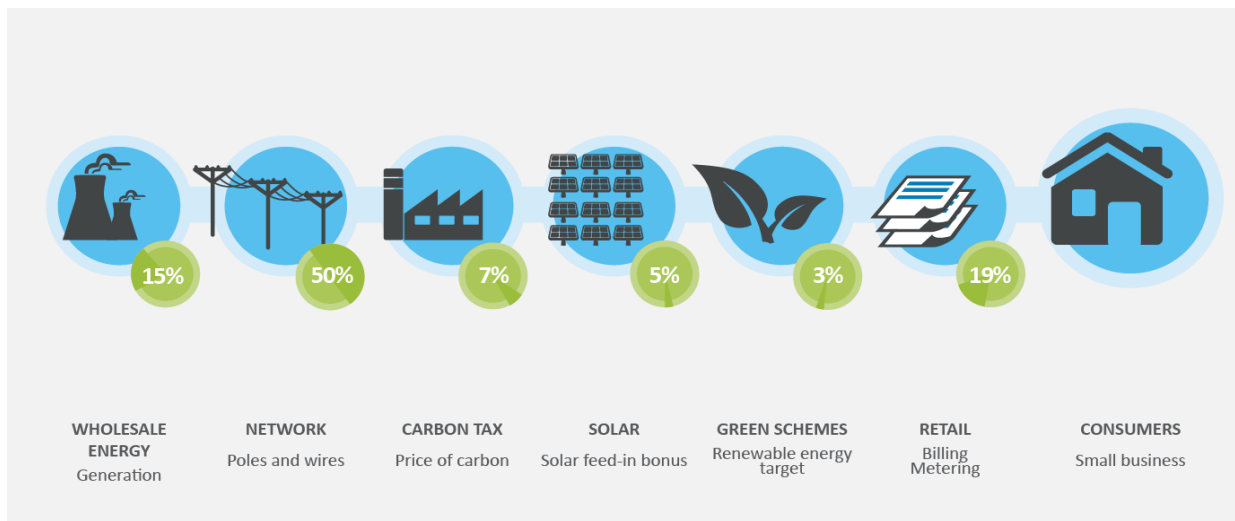


#### 2.3.1 ELECTRICITY PRICES

The recent rises in electricity prices since 2007 are attributed predominantly to network costs. CCIQ appreciates that the Queensland government responded to pressures for increased reliability standards of electricity and therefore 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 discontinue building unnecessary infrastructure.

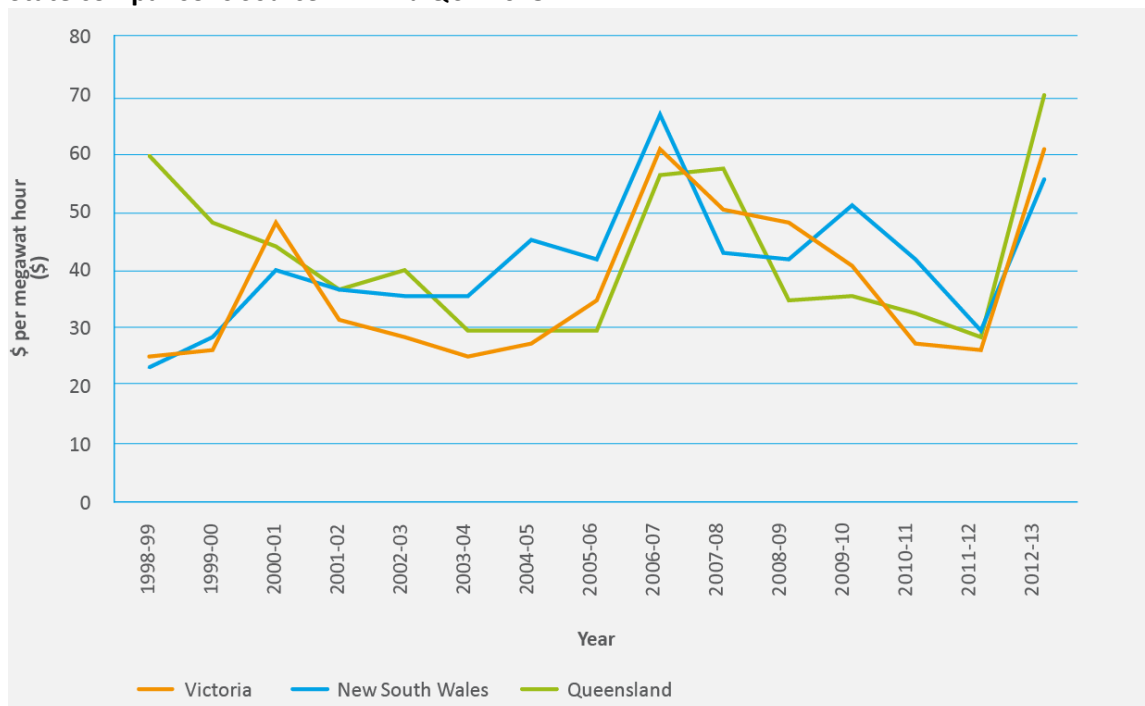
#### **R1: Stop building unnecessary network infrastructure**

**Electricity Supply Chain (Tariff 20) Source: QCA 2013**



Where electricity prices used to operate as a competitive advantage for Queensland businesses, allowing for significant economic prosperity, it is now seeing businesses silently closing their doors due to their inability to cope with electricity price pressures. The increase in energy costs in Queensland also stifles investment opportunities and depletes Queensland’s ability to compete with other States. The following graph shows Queensland’s rates now being higher than both New South Wales and Victoria, a trend that has not been evident since the late 1990’s.

**State comparisons Source: AER via QCA 2013**





CCIQ is in support of the Queensland Government endorsing the Interdepartmental Committee’s (IDC) recommendation of ensuring no further infrastructure be built with the intention to increase reliability of supply. Whilst we do not support further investment to improve 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. Given that there would only be an initial annual saving of approximately \$15, CCIQ would not support reducing the current levels of reliability. 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 significant investment as evidenced in the below table.

Accordingly, investment in the network into the future must be linking to improved reliability KPI’s. The following table shows businesses ratings of Queensland’s electricity industry and performance.

**Business Rating of Queensland's Electricity Industry and Performance (Survey 2011)**

	<b>1 - Very Poor</b>	<b>2 - Poor</b>	<b>3 - Average</b>	<b>4 - Good</b>	<b>5 - Very Good</b>	<b>Average Rating</b>
<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

Additional contributing factors to rising electricity costs include the recent climate change policies which saw the introduction of the carbon tax. CCIQ advocated strongly against the introduction of the carbon tax 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 has on the environment, overwhelmingly, the majority of Queensland businesses did and do not support the introduction of the tax, especially in the absence of international agreement and unilateral action to address climate change.

CCIQ also notes that network costs also consist of solar Feed in Tariff costs. The Queensland solar bonus scheme will be discussed in further detail.

### 2.3.2 MOVING TO PRICE MONITORING IN SOUTH EAST QUEENSLAND (SEQ)

Due to the diminished need for regulated retail tariffs in SEQ, the Queensland government has opted to remove regulated price-setting for the SEQ retail electricity market and replace it with price monitoring by 1 July 2015.

CCIQ supports the transition to price monitoring, provided that there is sufficient competition within the retail market and adequate customer protection mechanisms in place. Competition in the retail market will rely on there being a balance of power between suppliers, retailers and customers. Consumers will need to be actively engaged to allow competition to succeed. If there is no drive for consumer pressure or accountability on retailers, consumers will ultimately suffer. Consumers must be empowered to switch retailer without impediment. Additionally the Minister should also have the fall back option to move back to price regulation where effective competition is absent or failing. Accordingly, discontinuation of regulation should be reviewed to ensure that the anticipated outcome is realised.

CCIQ would also like to note however, that whilst moving to price monitoring may keep retail costs down (provided there is strong competition in the market); the network costs remain the significant price burden on consumers. Retail costs only make up 19% of a consumers bill. Therefore retail costs represent a comparatively small proportion of cost pressures experienced by consumers.

CCIQ would also like to raise the issue of the lack of competition in regional Queensland. CCIQ notes there is an opportunity for the Queensland government to implement strategies to encourage competition in areas outside of SEQ. CCIQ supports the Queensland government's aim to introduce a network based CSO, in parallel with reform to Ergon Energy's retail business. All retailers would therefore be able to access the subsidised network prices and compete for regional customers. However, CCIQ would like to assert that the 3 year timeframe is too long to wait and therefore advocates that a much shorter commencement date is needed. CCIQ believes competition in regional Queensland is vitally needed and must be encouraged outside of the uniform tariff policy.

**R2: Ensure there is adequate competition in SEQ prior to moving to price monitoring**

**R3: Enable the QCA to monitor effective competition and performance of the market and allow the government reserve powers to reintroduce retail price regulation**

**R4: Ensure there is no impediment to switching retailers**

**R5: The Queensland government should provide resources and support services, preferably through business and industry associations, to SMEs to assist them with understanding electricity pricing structures and the implications of market contract options**



**R6: Government to introduce a network based CSO for regional Queensland**

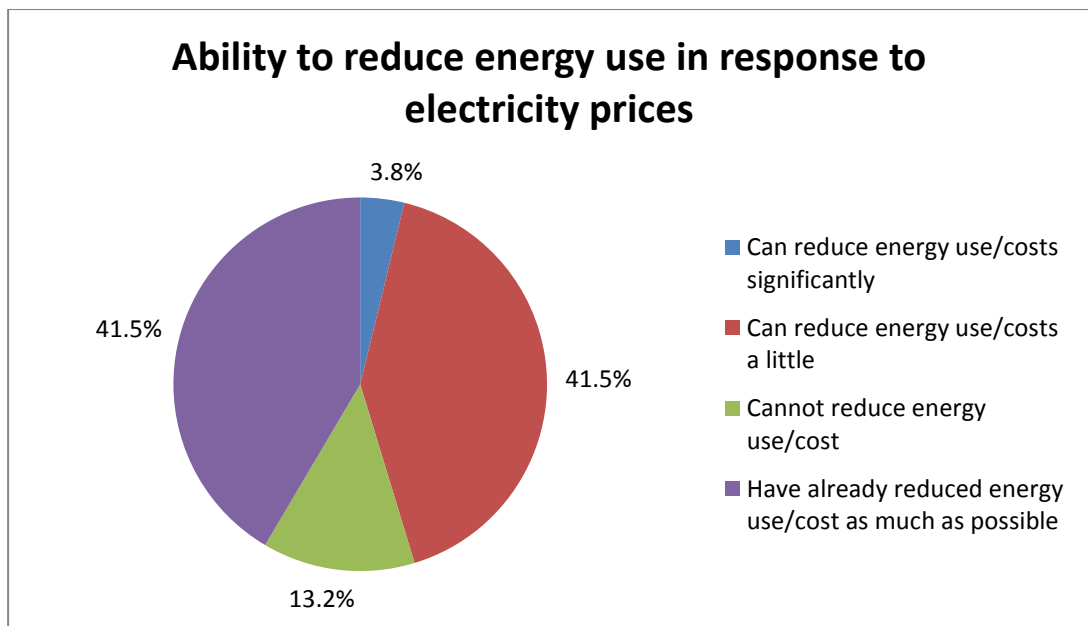
**2.3.3 DEMAND MANAGEMENT**

Queensland businesses are committed to energy efficiency for both environmental and commercial reasons. Energy is a major business input and consequently represents an area where businesses can reduce costs. Business energy use, while being extremely industry specific results mostly from:

- Production and manufacturing processes;
- Operation and maintenance of systems and information technology;
- Lighting; and
- Heating and cooling requirements.

This means that energy demand and use is a direct by-product of economic activity from which all Queenslanders benefit. Caution must therefore be exercised when setting energy policy to ensure that high energy use businesses are not penalised.

Many of CCIQ’s members have communicated that they have done all they can do to reduce their energy usage. The uptake of business energy efficiency is limited to the availability of efficient technologies and production process as well as the significant cost of plant and equipment. Quite often other regulatory frameworks such as health and safety and industrial relations requirements place additional restrictions on the ability of businesses to implement energy efficiency measures and manage peak demand. Energy consumption by businesses is unique to other customer groups. Businesses generally have a flatter usage pattern and operate independently from peak demand times. Other businesses are simply unable to rearrange their time of use structures due to the nature of their operations.



Source: CCIQ Business costs and electricity prices survey March 2013

One area which may impact positively on business demand management would be through the reform of tariffs. The Queensland government has committed to addressing the need for tariff reform as part of the energy reform process. The current tariffs for small business (tariff 20 and 22) are not entirely suitable for business. Tariff 22 – Business General Supply – Time of Use – does not represent appropriate price signals for businesses operating between the hours of 7am and 9pm Monday to Friday. As many businesses trade predominantly during the hours of 7am to 9pm Monday to Friday, they do not have the option to save money by operating outside of those hours and benefit from the variable off-peak rates. Additionally, tariff 22 also needs to offer stronger price signals to incentivise those that can alter their usage times. The small business flat rate Tariff 20 also needs to provide stronger price signals, as there is little difference between the tariff 20 flat variable rate and the tariff 22 variable peak rate.

**R7: Reform tariffs to better suit the needs of small business**

**R8: Provide incentives for businesses to adopt the advanced metering services**

CCIQ believe that many businesses would benefit from reforming tariff structures to better represent their usage patterns. Given that many businesses cannot change their operations to financially benefit from using power during off peak times, it would be appropriate for tariffs to be shaped to correctly suit the reality of business needs.

Demand management of electricity usage represents one of the only ways some businesses can implement cost saving measures. If tariff reformation does not perform to meet that need, businesses are left with limited options.

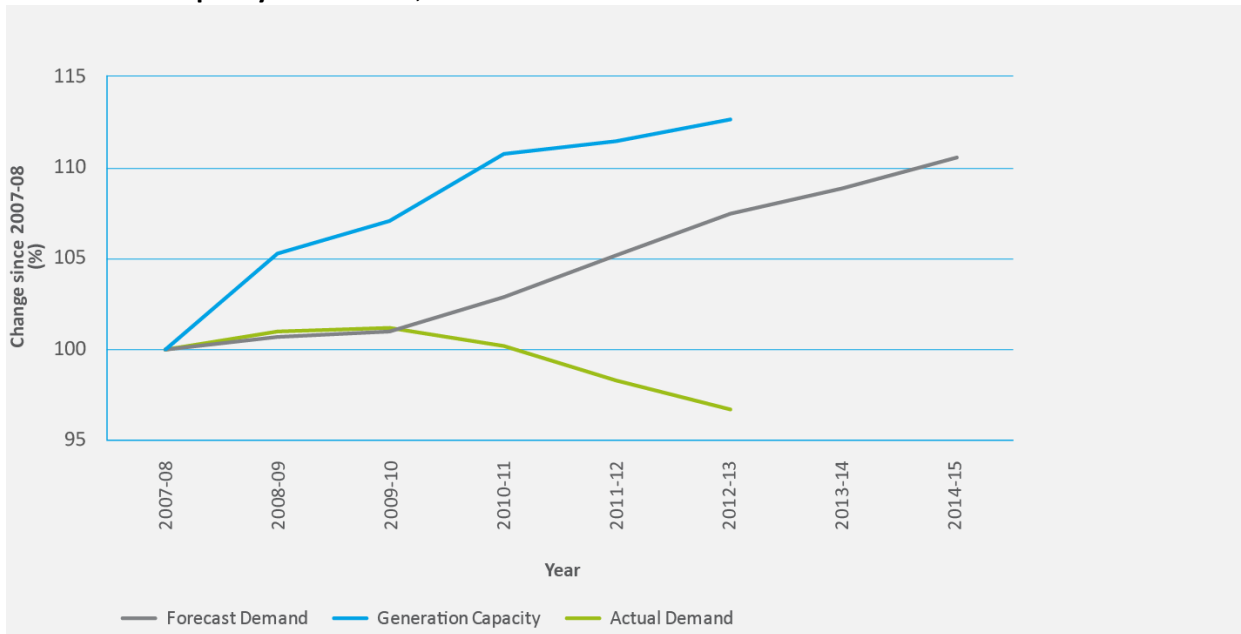
**R9: Support business and industrial energy efficiency through encouraging innovation and new technologies**

**R10: Government needs to work with businesses on an industry and sectoral basis to identify practical energy efficiency opportunities**

**R11: Financial incentives and tax system subsidies should be explored. Investment in energy efficiency should receive special tax treatment**

It is important to note that demand growth has fallen well short of the ambitious expenditure projections that underlie a large part of the expansion of the regulated asset and expenditure that has occurred. As well as over-estimating demand growth, Queensland's network service providers have had to meet more stringent network planning standards, the need for which has never been clear. The falling demand growth coupled with the underutilisation of the network capacity has incurred large costs for substantial excess of unused assets. Under the current regulatory regime the costs of this (depreciation plus return) are nonetheless recovered from users in regulated charges.

**Demand and capacity** Source: AER; AEMO via QCA 2013



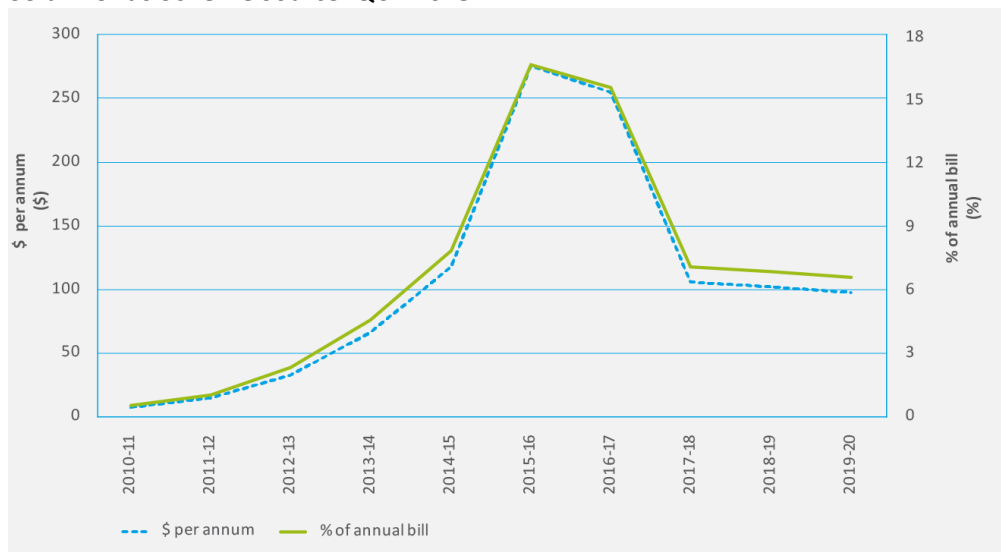
### 2.3.4 SOLAR BONUS SCHEME

A move to the government’s solar bonus scheme can be costly short and long term and has unquestionably been a liability for the Queensland tax payer. Customers who joined the scheme prior to 10 July 2012 and met eligibility requirements were paid 44 cents per kilowatt hour for their exported surplus electricity fed into the grid. Customers who joined the scheme after 10 July 2012 and met eligibility requirements are now paid 8 cents per kilowatt hour. This is a significant reduction from the initial bonus afforded to customers. Customers are also required to pay fixed rate charges for their continued accessibility to the network. Additionally, many businesses were exempt from this offer as they may be consuming above the 100 megawatt hours (MWh) threshold of electricity per year.

The Solar Bonus Scheme has unfortunately contributed to the high energy costs of non-solar power users. Energex spent \$167 million buying solar power from homeowners in the 2012/13 financial year and Ergon totalled \$76 million. Recovery of those costs is sought through charging non-solar users by way of higher electricity bills. Additionally, these users (largely households) have not had to pay for the increase in network capability to take this load. The scheme currently adds \$32 to the average power bill per year and is projected to increase to \$67 by the next year and \$276 by 2015-16. Despite the change to the lower 8 cents per kilowatt hour that customers receive when joining post 10 July 2012, all those who were paid the old rate continue to benefit from the 44 cents per kilowatt hour until 2028. Consequently it has been reported that the scheme will impose an eventual cost of \$900 Million, even after the move to the lower rate.

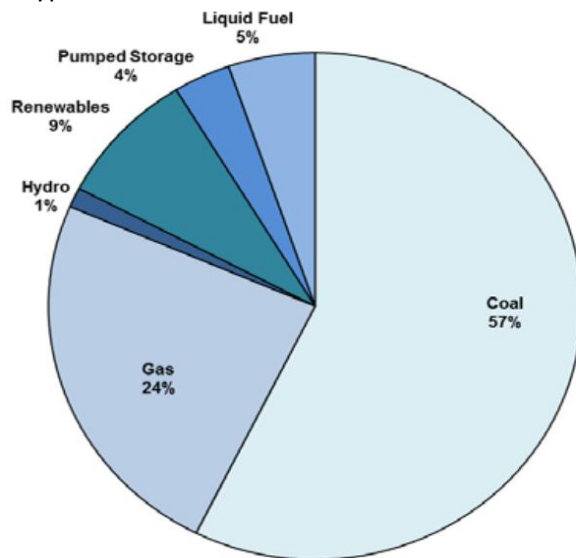
#### **R12: Reform the Solar Bonus Scheme (as per page 17)**

**Solar Bonus Scheme** Source: QCA 2013



**2.3.5 OPERATION OF DOMESTIC GAS MARKET**

In Queensland the main source of electricity supply is coal –fired generation. However, government carbon abatement policies have driven the emergence of gas-fired generation. The following graph shows the share of total capacity in Queensland by generation type as at 31 December 2012.



Source: AEMO with DEWS estimates for non-NEM (total generation 14,420 MW).

**Share of total generation capacity in Queensland by type, as at 31/12/12**

The discussion paper addresses the issue that 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 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.

The United States have banned LNG exports and are only recently processing requests on a case by case basis. This has resulted in a collapse on the domestic gas price to about a third of what it was. The result is wholesale replacement of coal-fired power stations – new and existing – with lower carbon emitting gas. It is important that Australia learns from the lessons others have experienced in this field.

**R13: Consider export limits to allow for domestic markets to compete**

## **2.4 THE FUTURE CHALLENGE - 6 TO 30 YEARS**

### *2.4.1 DIVERSIFICATION OF ELECTRICITY GENERATION*

There is no single source of energy that will meet all the needs of every location 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).

At this stage SMEs are limited in their ability to go completely ‘off grid’, given this generally requires large amounts of initial capital investment as well as expert knowledge and know how. SMEs simply lack the industry sophistication needed to achieve independence of the network system.

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.

**R14: 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**

CCIQ notes that the discussion paper states that fuel security in Queensland in the long term is unlikely to be a major issue as the state has large reserves of coal and gas. This statement is contextually constraining and will in itself limit innovative thinking about future options.

The discussion paper also provides a CSIRO modelling chart of future generation outcomes, displaying different scenarios. Where nuclear integration is permitted, total

emissions and wholesale costs are the lowest of all other situations. However, the paper provides that the Queensland government does not see any need for nuclear energy in Queensland. 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 issues surrounding the nuclear debate now, will ensure future debates can be conducted with well-informed community participation.

**R15: Facilitate consultation programs for public engagement following independent analysis of costs and benefits of alternative power to better inform public debate**

**R16: The government should not rule out nuclear power options as an alternative low carbon emitting energy source**

#### 2.4.2 *PRIVATISATION OF GOVERNMENT OWNED ASSETS*

Privatisation of the electricity supply industry has been a topical issue, both in the Queensland context and broadly across Australia over the past few years. The Queensland government currently holds a position strongly against the privatisation of Queensland's electricity generation and network companies. CCIQ would agree that the electricity supply industry faces unique challenges in Queensland due to size of the state and the disperse nature of its regions and population. Historically this has meant that private investment in energy generation and supply has been relatively unattractive, especially outside of the south-east and major metropolitan areas. It also presents significant cost parity challenges as the cost of electricity supply to regional and remote areas is significantly higher. The Queensland government argues therefore that privatisation of our energy market may mean even higher electricity price increases than currently experiences and lower security of supply and service levels for regional and remote communities.

However, proponents of privatisation claim that private ownership can have significant advantages including increased efficiency, lower costs and increased service reliability. They argue that public ownership of the electricity supply industry creates a perverse incentive for over-investment in generation capacity (or gold-plating) to maximise dividend and investment returns for government, that these companies tend to be inefficiently resourced and overstaffed and that real wages across the sector are driven upwards due to the bargaining power of the public service.

CCIQ remains open-minded to the debate over private ownership and supports in-principle which ever market structure best achieves the outcomes of competitive and low-inflationary pricing, security of supply, and operational efficiency. CCIQ believes there remains merit in ensuring that the right environment and appropriate market



incentives are in place to encourage and facilitate private sector investment where there are interested parties.

As Queensland's economy and regions continue to grow over the medium to longer term, private sector investment may become more attractive and as a state Queensland needs to ensure that the natural state-owned monopolies that exist in the electricity supply industry do not make private sector investment unattractive.

**R16: CCIQ recommends that the Queensland government review its policy position on privatisation and the current investment framework for the electricity industry to ensure the right signals and opportunities exist for private sector investment in the sector**

### **3. A FRAMEWORK FOR THE PATH FORWARD: RECOMMENDATIONS**

#### **3.1 LONG TERM REFORM GOAL: CREATE AN ELECTRICITY SUPPLY SYSTEM THAT IS RESILIENT, COST EFFECTIVE AND CUSTOMER FOCUSED**

The future of Queensland's electricity supply system will be determined by the actions taken in the short term by the Queensland government. The future of the energy sector in Queensland needs to focus equally on both the immediate future challenges as well as the long term challenges. CCIQ feel that the strategy may be too focused on addressing longer term challenges than those in the immediate future. It is important to acknowledge that the proposals for the long term will only be achievable if the issues of the immediate future are adequately dealt with.

The biggest issue of crucial importance to the business community is the recent unsustainable rises in electricity prices. If this is not addressed in the short term, there will be a bleak outlook for Queensland's economy.

#### **3.2 SHORT AND MEDIUM TERM GOALS: BUILDING THE FOUNDATIONS FOR REFORM**

We have set out below a number of recommendations that can be implemented now, or in the near future, to start the process toward reform.

##### **3.2.1 ELECTRICITY PRICING**

- **Stop building unnecessary network infrastructure:** It has been clearly identified that the largest proponent of recent cost increases is attributed to network costs. Due to the high level of network redundancy, it is unnecessary to continue to build any further network infrastructure with the view to enhancing reliability standards.
- **Ensure there is adequate competition in SEQ prior to moving to price monitoring:** Customers will need to be adequately informed and educated to help drive the market competition. Without pressure on retailers from consumers, the market will stagnate. Competition must be facilitated by ease of customers switching.
- **Enable the QCA to monitor effective competition and performance of the market and allow the government reserve powers to reintroduce retail price regulation:**

Where the effectiveness of competition is found to be significantly declining, the government should have the option of reinstating regulated retail pricing to ensure downward pressure on the market is maintained.

- **The Queensland government should provide resources and support services, preferably through business and industry associations, to SMEs to assist them with understanding electricity pricing structures and the implications of market contract options:** CCIQ strongly advocates for increased funding towards educating awareness for consumers to assist in understanding the complexities of the energy sector. Consumers will strongly benefit from gaining a better understanding of the breakdown costs of their electricity bills, and implementing savings measures accordingly.

### 3.2.2 DEMAND MANAGEMENT

- **Reform tariffs to better suit the needs of small business:** The tariffs currently available are not providing small business with appropriate pricing signals which allow them to reduce usage and offset costs. Many businesses have flatter usage patterns and therefore would benefit from tariffs with a lower variable rate (flat) charge. The government should also implement a freeze on the fixed access charge, and allow for network costs to be recovered over a longer time frame.
- **Support business and industrial energy efficiency through encouraging innovation and new technologies:** Innovation will be critical to enable Queensland businesses to adjust and remain viable under higher energy prices. While pure research has an important role, on-site innovation and trialling of alternative technologies at industrial facilities of various sizes and sectors will be critical. Innovation investment in energy use is key to achieving growth in new technologies.
- **Government needs to work with businesses on an industry and sectoral basis to identify practical energy efficiency opportunities:** A great deal of existing technology and information is available that can help improve industrial energy efficiency today. Rising energy prices will increase the commercial necessity for companies to adopt existing energy efficiency technologies, but a range of barriers will continue to inhibit take-up, particularly by smaller and medium-sized firms. Government and industry can cooperate to address the barriers to these opportunities, particularly through detailed advice on best practice in energy efficiency technologies.
- **Financial and tax incentives should be explored. Investment in energy efficiency should receive special tax treatment:** Diversifying energy supply towards low-carbon and renewable generation is also important in the context of managing exposure to higher energy generation and supply costs.
- **Provide incentives for businesses to adopt the advanced metering services:** advanced metering services could provide more sophisticated data that time of use tariffs, more frequent billing and product innovation would otherwise offer. Advanced meters or smart meters records consumption of electric energy in

intervals of an hour or less and communicates that information at least daily back to the utility for monitoring and billing purposes. Smart meters usually involve real-time or near real-time sensors, power outage notification, and power quality monitoring. These features would allow businesses to have greater control over their use of energy at specific times of the day. Given businesses are at a disadvantage in their limited ability to manage demand, offsetting the upfront costs of installing the advanced meters could assist businesses in addressing some of these issues.

- **Reform the Solar Bonus Scheme:** Due to the high costs the Solar Bonus Scheme has attributed to non-solar power users, we recommend the following:
  - Many issues exist with the current regime as people are profiting from utilising excess solar cells to generate hundreds of dollars of surplus power fed back into the grid. Non solar power users are paying the difference for those capitalising from the production of unused excess power and the impact on the network. Therefore we suggest that Solar Bonus Scheme customers are only credited from their Feed in Tariff to the extent where it offsets the amount paid on their network connections bill; or
  - Alternatively, due to the impost of an eventual cost of approximately \$900 million from those benefiting from the 44c per kilowatt hour Feed in Tariff, a gradual decrease should be implemented. CCIQ recommends the introduction of a glide reduction path reducing the 44c per kilowatt hour Feed in Tariff by 2.6 cents per year to 2027/28 financial year.

### 3.2.3 IMPROVE THE OPERATION OF THE GAS MARKET

- **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.

## 3.3 LONG TERM GOALS: THE FUTURE OF THE ELECTRICITY SECTOR

The following recommendations will assist in guiding the path forward for the possible futures of our electricity system.

### 3.3.1 DIVERSIFICATION OF ELECTRICITY GENERATION

- **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 is important to recognise that energy diversification should not be limited to just 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 generation 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.

- **Facilitate consultation programs for public engagement following independent analysis of costs and benefits of alternative power to better inform public debate:** There needs to be a comprehensive examination of all possible low-carbon emissions energy options. These need 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 in the future. The nuclear power option should not be ruled out and must be put forth for debate.

### 3.3.2 PRIVATISATION OF STATE OWNED ASSETS

- **CCIQ recommends that the Queensland government review its policy position on privatisation and the current investment frameworks for the electricity industry to ensure the right signals and opportunities exist for private sector investment in the sector:** CCIQ believes that in order to promote and sustain a competitive business operating environment and boost productivity, the state government must remain open to increasing private sector opportunities for public service delivery. CCIQ agrees that there are opportunities for businesses and public benefits to be gained from greater reliance on private sector provision of services. CCIQ encourages the government to give consideration to reviewing its assets in an effort to significantly reduce debt and regain Queensland's triple AAA credit rating. An enhanced budgetary position will dramatically improve business operating conditions for Queensland business, with the flow-on effects of increased productivity and improved living standards.

While there is some support for privatising Queensland's energy assets, CCIQ's membership base is currently divided on the issue of privatisation and outsourcing and how it could be successfully managed by the state government. CCIQ members have reservations about price and service outcomes for regional Queensland if privatisation of the energy sector occurs. Although CCIQ believes privatising the sector will significantly reduce prices and increase service performance (as evidenced by the model utilised by the Victorian Government when it privatised its energy sector in the 1990's), the Queensland State Government must act to introduce caveats to ensure price and service outcomes aren't compromised regionally.

While CCIQ remains open-minded to the reports assertion that private ownership of the energy sector is the most efficient market structure for the Queensland energy sector, we firmly support the need for urgent policy and regulatory reforms in Queensland to address the industry issues related to regulatory design, planning and management, and sustainability and energy efficiency. Additionally, the policy and management framework in Queensland remains relatively fragmented with separate areas of government responsible for energy policy, industry development, planning and infrastructure, climate change and emissions management and renewable energy.

## 4. CONCLUSION

The issues and problems that CCIQ has raised on behalf of businesses are not new. As such, there is no time left for complacency in the Queensland electricity sector when it comes to the need for reform. In this submission, CCIQ has presented what we believe is the most compelling case for change, particularly with respect to lowering electricity prices and reforming the future energy sector framework. The sector, as it currently operates, does not fulfil its purpose of a reliable yet competitive market in Queensland. However, we are confident that the framework of recommendations that we have developed provides a clear and workable path for positive reform of the electricity system and the energy sector more broadly.