

20 June 2013

The Hon Mark McArdle MP  
Minister for Energy and Water Supply  
Parliament House  
Level 13, Mineral House  
41 George Street  
BRISBANE QLD 4000  
EnergyandWater@ministerial.qld.gov.au

Dear Minister,

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the recommendations of the Interdepartmental Committee on Electricity Sector Reform and the State Government's response. The cost and efficiency of the Queensland energy sector is a significant issue for Queensland businesses who view the price increases delivered under the current and recent frameworks as being unsustainable.

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 and in the past eighteen months has released:

- Submission in response to the State Government's Directions Paper – 30 Year Electricity Strategy;
- Blueprint for an Efficient Productive and Sustainable Electricity Supply for Queensland;
- Blueprint for design planning and management of Queensland's energy sector and electricity market; and
- CCIQ submissions to the Review of Regulated Retail Electricity Tariffs and Prices.

### **Rising Electricity Prices**

CCIQ has grave concerns over the impact the electricity price increases gazetted for 2013-14 will have on business profitability and competitiveness. For example the price increase for Tariff 20 General Business Supply will increase by 16% to 23.218 c/kWh and the price increase for Tariff 22 Business General Supply – Time of Use (ToU) will increase by 26% to 25.496 c/kWh, with other business tariffs to increase by similar levels.

Given the difficult trading environment at present, Queensland businesses are very reluctant to attempt to pass increases onto customers for fear of losing trade. Yet at the same time most businesses have already reduced their electricity usage as much as possible, forcing businesses to try and absorb these unmanageable increases.

Indirectly the impact is equally bad for business. Households have also experienced unprecedented increases in their electricity bills with the resultant impact of less disposable income and in turn discretionary expenditure. The doubling in electricity prices over the past seven years has unquestionably been a significant influencer of the regrettable closure of many businesses.

CCIQ firmly believes that these 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. More 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.

## **IDC & Government Response**

The Queensland businesses community is numb to the rhetoric and lack of genuine commitment to comprehensively reforming the electricity sector in Queensland. Without intervention it is conceivable that electricity prices will continue to rise under QCA methodology by the same increases year after year.

That is why CCIQ is pleased to see the State Government's response to the IDC recommendations. The IDC recommendations reflect reform options publically discussed and debated for a number of years (i.e. prior to the change of government in March 2012).

What differs however is that the current State Government have proven themselves as having the tenacity and conviction to challenge the established market framework and have displayed genuine commitment to address many of the underlying factors which have contributed to increasing electricity prices (which the previous State Government had clearly been reluctant to do).

Accordingly CCIQ congratulates the State Government on accepting the majority of the IDC recommendations in full.

## **Specific Feedback**

CCIQ remains concerned that electricity price relief is possibly still some years from being delivered. Many of the recommendations and government actions have been referred to other reviews and/or are subject to other reviews/strategies. CCIQ believes it is of upmost importance that the State Government expedite the delivery of both the finalisation of the '30-year electricity strategy' and the Queensland Commission of Audit Implementation Taskforce.

In a few cases CCIQ believes that the IDC recommendations and State Government response do not go far enough to address some of the key issues for Queensland Businesses. CCIQ notes the following:

- CCIQ recognises the limitations that the current network tariff structure and prices place on the retail price determination methodology and the restrictions it places on retailers to be able to provide genuine TOU incentives for electricity consumers. TOU is one of the only remaining opportunities for Queensland businesses to reduce their exposure to electricity price increases. *CCIQ would like to have seen the State Government direct its electricity GOCs to expedite the review and development of new network tariffs which include truly reflective TOU pricing signals.*
- Furthermore CCIQ believes that the state-wide roll-out of smart meters would prove effective in managing demand, and therefore disagrees with the State Government's lack of support for technologies which lead to better informed consumers and have the potential to reduce demand. Acknowledging budget constraints which restricts a fully-funded rollout as occurred in Victoria, *CCIQ believes that the State Government could play an active role in promoting and supporting/subsidising voluntary installation of smart meters (or similar tools/technologies)* especially given the fact that peak demand is one of the primary drivers of retail price increases.

- CCIQ notes the State Government intention to review the UTP, and that the Government 'supports targeting UTP arrangements to those consumers most in need'. CCIQ is concerned that this may imply a reduced priority on extending UTP to business consumers in the Ergon area and therefore seeks assurances from the Queensland Government that they will consider all pricing impacts for businesses before making any future decisions regarding UTP. Removing UTP before there is sufficient market competition across all areas of Queensland would most certainly deliver unsustainable price increases for business and industry in regional areas which would have devastating impacts for employment and social wellbeing of regional communities. *CCIQ firmly believes that UTP can only be withdrawn if/when regional Queensland are exposed to comparable levels of competitive market pricing.*
- CCIQ welcomes the State Government's open commitment to an informed public debate regarding the benefits and costs of private ownership of state energy assets/businesses. CCIQ shares the State Government's view that this proposal is worthy of an open and transparent debate to inform and engage stakeholders in this decision. Feedback from our members clearly indicates that unless lower prices and better service delivery are the outcomes then the benefit to the State Government's balance sheet will not be enough for the business community to support such an agenda.

### CCIQ viewpoint

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. CCIQ's energy policy covers a number of important issues including:

**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.

**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.*

**Lifting Network Performance Standards** 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.*

**Energy Efficiency:** 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. 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 and their profitability. However this also 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.*

**Removal of a Carbon Constraint** 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;
- 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; 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 is a better policy option.

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.

**Conclusion:**

The State Government has a crucial role through its energy policy in helping to shape and secure Queensland's economic future. CCIQ encourages the State Government to consider our response to this process and our Energy Blueprints.

The issues raised in this response should be at the core of any State Government vision. CCIQ welcomes the opportunity to present in person the points raised in this response. To this end please do not hesitate to contact me on (07) 3842 2279 or [nbehrens@cciq.com.au](mailto:nbehrens@cciq.com.au) should you have any questions or wish to meet.

Yours sincerely



Nick Behrens  
**General Manager - Advocacy**