QUEENSLAND GOVERNMENT

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Senate Select Committee Inquiry and Report on Electricity Prices

Dear Committee Secretary

The Newman Government welcomes Senators', especially Queensland Senators', interest in the cost of electricity and its impact on household budgets. As the Premier of Queensland, Hon Campbell Newman MP said at his first Council of Australian Governments (COAG) meeting in April, reducing the cost of energy supply is a national priority area for major reform that should be considered and discussed in an open, transparent and honest way.

Thank you for the opportunity to make a contribution to the Senate Select Committee Inquiry and Report on Electricity Prices. In many ways, however, this Inquiry and Report will likely duplicate much of the earlier work completed in preparation for the October 2012 Standing Committee on Energy Reform (SCER) meeting and the December 2012 COAG meeting.

For Queensland, since 2007, the electricity price experience is an 83 per cent price-hike in household electricity bills. This was a period when the Beattie-Bligh State Labor Governments asked for massive electricity price hikes and the Rudd-Gillard governments simply approved them. And, as a result of a change in government, average household electricity prices this year were frozen at last year's prices. The only price increase this year for an average Queensland household on the standard residential tariff (Tariff 11) will be cost increases attributed to the Labor-Greens Carbon Tax.

I am confident Queensland Senators can advise the Committee that the Newman Government was elected on a comprehensive reform agenda aimed at easing the cost-of-living stress for households. This included trying to reduce the impact of skyrocketing household electricity prices on increasingly strained household budgets. More importantly, Queensland Senators can confidently report the Newman Government acted swiftly to freeze the major domestic tariff (Tariff 11) at last year's prices (short-term), while we established a major taskforce on electricity sector reform (mid-term) and have already started developing a 30-year plan for Queensland's energy supply (long-term). The establishment of this Senate committee, in part, validates the importance of this work, while tapping into an emerging, albeit delayed, national conversation on electricity reform.

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It is important to recognise the Federal Government, through national laws and guidelines passed by the Australian Parliament, also have a direct impact on electricity industry costs, which are then passed onto electricity consumers. Put simply, if operational costs are higher than they should be, so are the costs and charges paid by consumers. For example, the introduction of the Labor-Greens carbon tax added further upward pressure on Queensland electricity prices. To address the impact of this on the cost of living, the Newman Government froze the standard domestic electricity tariff (Tariff 11) for 2012-13 – at a cost to Queensland taxpayers of about $63 million this financial year.

The true story behind the causes of Queensland electricity price increases, as with electricity price increases in other States and Territories, is partly found by looking at history – political history. Indeed, the best lesson from history more broadly, but Queensland's political history more specifically, is those who failed to plan – fail the generations that followed. For example, most governments, historically, have recognised coal-fired power stations offer the most affordable and reliable long-term source of power for Queensland households and businesses. This is because coal is an abundant, low-cost energy source in Queensland. However, for the last two decades there has been an increasingly pervasive political influence that has made it more difficult for governments to make decisions about how to secure the most affordable future electricity generation capacity.

In 1995, *The Courier-Mail* observed *"...with the Goss Government perennially preoccupied with its green credentials, it would be a difficult decision to embark on a major new coal-fired power station, especially in an election year."*(Morley, 1995) A decade later, the Beattie-Bligh governments poured a significant amount of money into 'green-washing' the future of coal as a power-generating fuel source. *The Sunday-Mail* observed that after $150 million had been pumped into what is effectively a hole in the ground in central Queensland, Premier Anna Bligh walked away from the controversial $4.3billion ZeroGen clean coal project. (Lion, 2010) And, in September 2012, *The Australian* reported *"...plans to replace heavily polluting coal-fired power stations with 'cleaner' electricity are in turmoil and a new rift has opened between Labor and the Greens after the government scuttled a key plank of its carbon policy."* (Hepworth, 2012)

The electricity industry is essential to the economic and social life of Queensland. However, because the power generators that make electricity and the networks that transport electricity safely to Queensland households, businesses and industry take so long to plan, build and come on line it is critical to plan for future electricity supplies to guarantee security of supply. It is just as important for governments to make timely investments in electricity generator capacity to meet the increasing supply and demand that comes with population and economic growth to avoid blackouts, brownouts and other supply disruptions that would otherwise have an adverse impact on the economy. In this regard, planning, investment timing and the cost of capital are directly linked to electricity prices, especially with regards to a national policy of full cost reflectivity. Put simply, Queensland's high electricity prices reflect historic capital investment decisions and/or indecision. For this reason, it is worthwhile looking at the history Queensland's electricity supply.

Up until the early 1990s', the Queensland Electricity Commission (QEC) maintained power prices at the lowest average in mainland Australia, despite major price rises in other states. (Morley, 1993) *The Courier-Mail* observed *"Queensland consumers have been reasonably well treated, having to absorb only half the Consumer Price Index increases in electricity prices. In addition, the commission has kept funding its heavy maintenance and new plant programmes without resorting to excessive borrowings. Recently, however, certain events have taken place which could turn this producer of electricity into something more agricultural such as a milking cow."* (Morley, 1993)

The Goss Labor Government irreversibly changed Queensland's electricity supply structure with its corporatisation agenda – with increased profits, tax equivalent payments and interest on borrowings flowing to the State Government. In its political hard-sell for full corporatisation of the state's electricity supply system by 1 January 1995, the Goss Government even promised that *"...power bills would fall when the Queensland electricity supply industry began operating like a private company."* (Franklin, 1994)

In February 1995, *The Courier-Mail* observed that *"since the Goss Government came to power, the electricity industry has been urging that it receive approval to increase capacity or there will be power shortages after 1998...Queenslanders were promised in 1991 and 1992 that an all-embracing energy statement by the Government was imminent. It remains so. The bottom line in early 1995 is that no potential new major power station can now be on stream in Queensland in time to meet the industry's 1998 deadline for a power crisis".* (Morley, 1995) And, within months, in the lead up to the 1995 State election, the Goss Government established a future power supply task force to determine the best options to guarantee future electricity supplies. (Morley, 1996) In effect, the Goss Government was incapable of making decisions about increasing electricity generation capacity despite a lot of talk, study and processes.

In 1996, the Borbidge Government inherited serious capacity constraints in the state's electricity generation and supply network – without an ability to import electricity from NSW. However the Borbidge Government was seemingly distracted by new national competition guidelines and was slow in pushing through decisions to refurbish Collinsville and expand electricity generation capacity at Callide, as well as build peak load, gas-fired stations in Townsville and Oakey – and the Westlink (interconnector) that ultimately plugged Queensland into the national grid. And, in early 1998, the Borbidge Government had to deal with a series of embarrassing power blackouts, which it did not handle very well. In effect, the Goss Government's "electricity supply" crisis time bomb had gone off – as predicted – providing the incoming Beattie Government with significant political capital.

From taking office to the 2004 State election, the Beattie Government sent out over 500 Ministerial Media Statements about population growth. Despite regular warnings from the State's major electricity supplier that "Energex needed to retain money to invest in 'future capital funding'" (Wardill and Odgers, 2004), excessive dividends that significantly hampered the power company's ability to cater for booming electricity demand were returned to government. The Beattie Government insisted on a regime where 95 per cent of its profit was swept into its coffers'. (Wardill, 2004) In effect, the Beattie Government was warned, early and often, that its decision to increase the amount of after-tax profits (from 65 per cent to 95 per cent) would cripple state-owned electricity company supply maintenance and investment plans. As a result, Queensland later experienced an unmitigated "electricity crisis". In late 2004, *The Courier-Mail* observed: *"The longer the public anger over the rundown of the electricity network lingers, the more exposed is the Beattie ministry to questions over its record in administering Queensland's public institutions. Energex and Ergon may eventually regain credibility with the public. But wither the Beattie Government's credibility as a competent manager of the state's assets?"*

For many Queenslanders, *The Courier-Mail's* infamous *'Power Point Pete'* caricature will forever symbolise a Queensland government that lost control of the State's electricity. The Beattie Government even promised to write a blank cheque to fix Queensland's energy crisis and ruled out price hikes beyond the consumer price index. (Giles, 2004) A series of political crisis management dramas, a big new review – and panic-hurried infrastructure investment followed. Not surprising, the Queensland "electricity crisis" became a 'high politics' issue in the lead-up to the 2004 Federal

Election, with the Federal Government accusing the Beattie Government of gross negligence and incompetence – suggesting consumers would ultimately have to pay for multibillion dollar network upgrades. Federal Energy Minister, Ian Macfarlane said *"...this brings home the fact Labor can't balance a budget and has to strip money from government-owned corporations which then puts those services in decline"*. (Parnell, 2004)

When announcing the introduction of retail competition of the Queensland's electricity industry, the Beattie Government's then Treasurer Anna Bligh promised: *"It does not matter where you live, nobody—not one Queenslander—will be worse off under the government's proposal."* However, the cost recovery regime for the Beattie –Bligh Government's promised "blank cheque to fix Queensland's energy crisis" was passed on to every Queensland household and business through skyrocketing electricity bills. For example, the debts of Energex, Ergon and Powerlink more than doubled in five years increasing from $6.1 billion in 2005/06 to $12.6 billion in 2010/11. The interest on this debt increased from $327million to $807million during the same period. And, household electricity prices also increased significantly, up 83 per cent from 2007/08 to 2012/13.

The Newman Government has advised the Gillard Government that it **will not** sell any state-owned assets without seeking a mandate from the people of Queensland. Last month, the Gillard Government signalled its intention to use the new energy white paper, due to be released later this year, as a vehicle to push Labor's nation-wide privatisation agenda for State Government-owned energy companies. (Hepworth and Salusinszky, 2012). It is also important to note that, in addition to economy-wide adverse impacts, the Labor-Greens Carbon Tax has significantly reduced the value of the State's publicly-owned power-generator assets – without compensation. In effect, this "anti-Queensland" Labor-Greens tax will force local households and businesses to pay multinational and interstate electricity generator companies to out-perform the electricity generators Queensland residents now own. Put simply, imposing a national plan for Queensland's future energy supplies that makes the State's principal power source more expensive for struggling households and businesses is not in Queensland's interest.

Given the importance of electricity prices for all Australians, I was disappointed the Senate Select Committee Inquiry and Report on Electricity Prices was quietly launched on 23 August 2012 – seeking submissions by 14 September 2012. Despite these challenges, I am pleased to enclose the attached submission for the Committee's consideration.

Yours sincerely

Hon Mark McArdle MP
Minister for Energy and Water Supply

Submission to the Senate Select Committee on Electricity Prices

Submission on behalf of the Queensland Minister for Energy and Water Supply

September 2012

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1. Introduction

For many years Australia enjoyed relatively stable electricity prices. But this situation has changed markedly, with substantial price increases since 2007. The increases are mostly attributable to rising charges for energy networks — the poles and wires, and gas pipelines that transport energy. In some jurisdictions, cost pressures have also resulted from wholesale energy costs, retailer costs and margins, and climate change policies (including renewable energy targets, incentives for small scale solar generation and energy efficiency schemes). (AER, 2011:4)

The above statement from the Australian Energy Regulator (AER) identifies that recent price increases in electricity prices coincided with the election of the Rudd-Gillard Government in 2007 at a time when all State Governments were Labor. For the states that are part of the National Energy Market (NEM), absolute control by Labor Governments only changed in December 2010 following the election of the Baillieu Government in Victoria. Many of the concerns now echoed by Prime Minister Julia Gillard relate to policy decisions from Labor Governments that she was unwilling to confront whilst Labor held office in these states.

Unlike the Prime Minister, the AER identifies a broad range of costs drivers of electricity prices, these being:

- the poles and wires
- wholesale energy costs
- retailer costs and margins; and
- climate change policies.

The Queensland Government has recognised the key role that cost increases in poles and wires has played in driving electricity price rises since 2007 and as one of its first acts moved on this. The Queensland Government not only froze the standard residential electricity tariff for 12 months but established an Independent Review Panel to examine the costs drivers for electricity transmission and distribution networks. The panel will report to Government before the end of 2012.

2. Leading a state-wide electricity reform agenda

Consistent with other jurisdictions in the National Electricity Market (NEM), retail electricity prices in Queensland have risen dramatically over recent years. This has been influenced by a range of factors including increasing network costs and the cost of environmental policies, such as the Renewable Energy Target (RET).

Because a freeze on the Queensland standard domestic electricity tariff (Tariff 11) can only be a short term measure, other options to address projected future price rises needed to be investigated. For this reason, in May 2012, the Newman Government established an Interdepartmental Committee (IDC) on Electricity Sector Reform to review all aspects of the sector that impact on electricity cost, specifically energy supply; network costs; and retail competition.

The objectives of the Inter-Departmental Committee (IDC) on Electricity Sector Reform are to ensure:

a) Electricity in Queensland is delivered in a cost-effective manner for consumers;
b) Queensland has a viable, sustainable and competitive electricity industry; and
c) Electricity is delivered in a financially sustainable manner from the Queensland Government's perspective.

The IDC is chaired by the Director-General of the Department of Energy and Water Supply, and also includes the Director-General of the Department of the Premier and Cabinet and the Under Treasurer, Queensland Treasury and Trade. The IDC has established an Independent Review Panel (IRP) to make recommendations in relation to network costs.

The IDC will make recommendations to Government regarding delivery of its three objectives in relation to network costs, based on a report by the IRP. The content of the IRP report will not be limited in scope but must include recommendations on:

- The optimal structures of the Government-Owned Corporation (GOC) distribution network businesses (Energex and Ergon Energy);
- The efficiency of current network capital and operational expenditure within the GOC network businesses (Powerlink, Energex and Ergon Energy) and innovative options to:
    - address peak demand increases;
    - improve efficiency of capital and operating expenditure;
    - incorporate the value to customers of network security and reliability in network planning and the setting of performance standards; and
    - improve demand forecasting.
- Current and future issues in relation to national regulatory reform for the network businesses, with particular reference to areas that Queensland should influence in order to improve outcomes for network costs.

In addition to recommendations based on the report from the IRP, the IDC will be required to develop recommendations on:

2.1 Energy supply

- Cost drivers relating to the generation sector, including capital and fuel costs along with financing considerations, in both the NEM and the north-west Queensland system;
- Constraints on the competitiveness of the Queensland GOC generation businesses (CS Energy and Stanwell) and efficiency improvements which may result from the removal of specific constraints;

- The future of existing State based polices, including the Queensland Gas Scheme and Queensland Government restrictions on new coal-fired electricity generation; and
- Improving the cost effectiveness of delivery of electricity to isolated communities, including supply and demand-side options.

2.2 Pricing Issues

- A framework to determine regulated retail electricity prices for 2013-14, including considering merits of:
    - longer-term pricing determinations (i.e. two/three years); and
    - an inclining block tariff structure, time of day pricing or other arrangements for residential consumers to provide price signals about efficient electricity use; and
- An implementation strategy for transitioning large, non-residential customers outside South East Queensland (SEQ) to new tariff arrangements, including a strategy for dealing with individual legacy billing issues for very large customers.

2.3 Retail Competition

- Competition in the Queensland market (including South-East and Regional Queensland) and the NEM;
- The role of Ergon Energy in delivering the Uniform Tariff.
- The future delivery of the Community Service Obligation;
- An approach to non-energy street lighting costs (construction and maintenance) outside SEQ;
- Role of Government agencies in monitoring energy GOCs.

The IDC will seek input from the IRP on issues as required.

3. The Queensland electricity industry

Most of Queensland's electricity is currently generated by coal-fired power stations because it is an abundant, low-cost energy source in Queensland. The amount of energy produced from various power generators depends on market demand, price and availability of renewable sources. This means that the amount of electricity sent out by power stations in Queensland differs from the state's total generating capacity figures. In 2010, 73 per cent of electricity came from coal-fired power stations, 23 per cent came from gas and 4 per cent came from renewable energy. (Queensland Government)

The Queensland electricity supply industry currently comprises:

1) generators, which compete and operate independently - there are three publicly owned generators (Tarong Energy, Stanwell and CS Energy) and several privately owned generators;
2) Powerlink Queensland, which owns and maintains the high voltage transmission grid;
3) two distribution businesses - Energex and Ergon Energy have an effective monopoly over the distribution network within their regions;
4) Ergon Energy Queensland - a subsidiary of Ergon Energy, which provides retail services to non-market customers that have not entered a negotiated contract; and
5) Independent retailers. (Queensland Competition Authority, 2012)

3.1 Regulating Electricity prices in Queensland

Under the *Electricity Act 1994*, as amended for the introduction of Full Retail Competition (FRC), the Queensland Competition Authority (QCA) has a number of functions related to retail electricity. The Authority's responsibilities include the following retail electricity issues:

1) determining regulated retail electricity prices;
2) establishing a Consumer Advisory Committee to advise the Authority on the interests of consumers in the exercise of the Authority's responsibilities under the *Electricity Supply Act and Gas Supply Act;*
3) maintaining public registers, such as standard large customer retail contracts;
4) enforcement of and proposing amendments to, the Electricity Industry Code;
5) monitoring and Enforcing the Electricity (Retail Billing Guaranteed Service Level Scheme) Code; and
6) administering the Retailer of Last Resort Scheme.

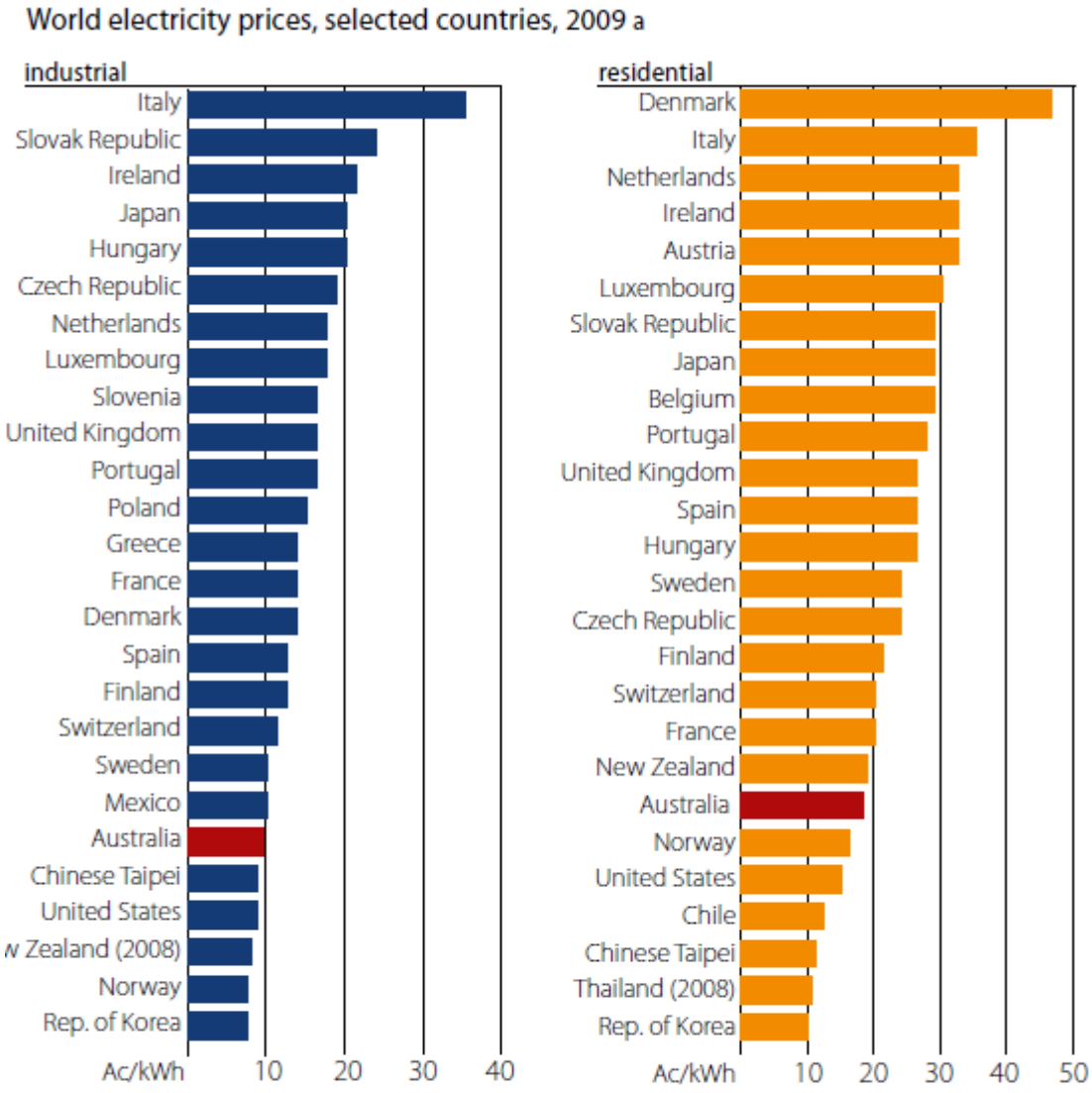
From 1 July 2010, most regulatory responsibilities in relation to electricity distribution transferred to the Australian Energy Regulator (AER). The AER is Australia's national energy market regulator and an independent statutory authority, which is funded by the Commonwealth Government, with staff, resources and facilities, provided from the Australian Competition and Consumer Commission (ACCC). The AER operates under the *Competition and Consumer Act 2010* (The Act) and its functions are set out in national energy market legislation and rules, and mostly relate to energy markets in eastern and southern Australia. These functions include:

1) setting the prices charged for using energy networks (electricity poles and wires and gas pipelines) to transport energy to customers;
2) monitoring wholesale electricity and gas markets to ensure suppliers comply with the legislation and rules, and taking enforcement action where necessary;
3) publishing information on energy markets, including the annual State of the energy market report and more detailed market and compliance reporting, to assist participants and the wider community; and
4) assisting the ACCC with energy-related issues arising under the Competition and Consumer Act, including enforcement, mergers and authorisations.

4. International comparisons

The below table from ABARES provides context to the price of electricity in Australia compared to selected countries. It provides an insight into the comparative costs in European jurisdictions where there is a greater emphasis on green energy and carbon policies. The Senate Select Committee Inquiry and Report on Electricity Prices would benefit from obtaining an updated breakdown of energy sources from these countries, which should identify the future cost impacts for alternative policy settings.

International comparisons with jurisdictions already implementing these policies will enable the Labor-Greens Alliance's *green and renewable* policies to be benchmarked against jurisdictions already implementing these policies.



a Australian prices estimated using 2004 prices from IEA Energy Prices and Taxes, and ABS index of electricity prices for households and businesses.
Sources: IEA, *Energy Prices and Taxes 2010*; ABS.

Source: ABARES, 2011:26

5. Cost drivers of electricity

The four elements that make up electricity costs are: (i) energy costs; (ii) transmission and distribution; (iii) retail cost; and (iv) the Labor-Greens Carbon Tax. (Ferguson, 2012). Within each of these there are other factors which are determined by the policy settings of government which may impact upon prices. The below table from the AER (2011) identifies costs across the jurisdictions in the NEM (excluding Victoria)

Indicative composition of residential electricity and gas bills

JURISDICTION	WHOLESALE ENERGY COSTS	GREEN COSTS	NETWORK COSTS	RETAIL OPERATING COSTS	RETAIL MARGIN
	PER CENT OF TYPICAL SMALL CUSTOMER BILL				
ELECTRICITY					
Queensland	38	4	49	4	5
New South Wales	32	6	51	6	5
South Australia	42	5	41	7	5
Tasmania	39	4	48	5	4
ACT	35	8	46	6	5
GAS					
New South Wales	33	–	47	13	7
South Australia	16	–	63	16	5

Note: New South Wales gas estimates are based on 2010 data; all other estimates are based on 2011 data.

Source: AER, 2011:110

What this table (above) illustrates is that even prior to the Labor-Green Carbon Tax, the small percentage of green energy already contributed unnecessarily to electricity prices. Renewable energy contributes only around 7 per cent to Australian electricity generation with the largest components being hydroelectricity 4.7% and wind energy 1.5% (ABARES, 2011:31) Schemes associated with promoting green energy are adding disproportionate amount to household and business electricity costs.

In assessing the likely causes of electricity price rises, the Senate Select Committee Inquiry and Report on Electricity Prices needs to take into account the Commonwealth Government has legislated a Renewable Energy Target of 20 per cent by 2020 and is spending $5 billion through its Clean Energy Initiative to support the development of renewable energy technologies (ABARES, 2011). Australian taxpayers are footing the bill for significant subsidies being offered to expensive renewable energy technology, whilst at the same time the Labor-Greens Carbon Tax is a significant cost impediment for cheaper forms of electricity.

Any finding by the Senate Select Committee Inquiry and Report on Electricity Prices must include transparent costs that include generous subsidies which distort the actual cost of renewable energy because it is not yet cost competitive without heavy subsidies.

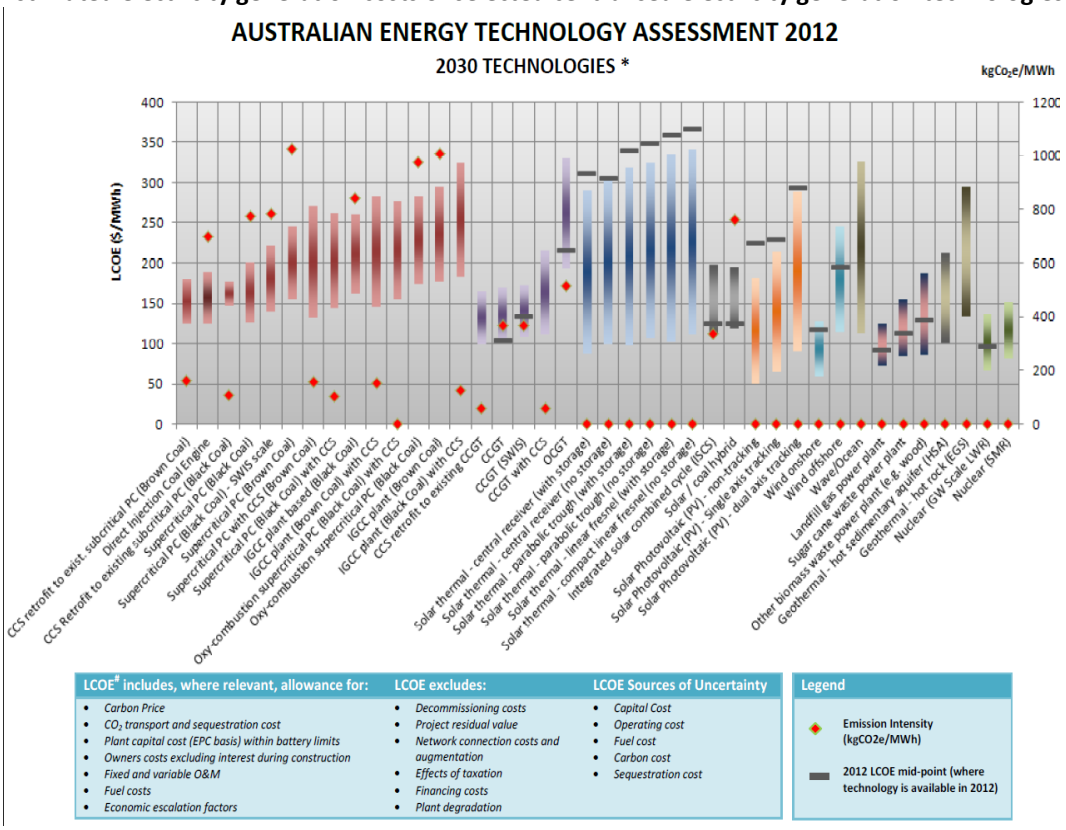
5.1 Energy Costs

The cheapest and most efficient production of energy is currently not the primary driver of energy policies. There are a number of policies put in place by Commonwealth and State Governments that impact on delivering to consumers the cheapest energy cost. Renewable and green policies directly impact on energy costs and must be considered as part of the Senate Select Committee Inquiry and Report on Electricity Prices Term of Reference (a) *identification of the key causes of electricity price increases over recent years and those likely in the future*.

The RET needs to be included in energy costs. Although ABARES (2011) identified it is currently 7%, RET will increase to 20% by 2020 and will be a major cost driver. The graph (below) from the Australian Energy Technology Assessment (2012) identifies the cost difference between each of the different sources of electricity. Solar Thermal projects currently favoured by the Gillard Government

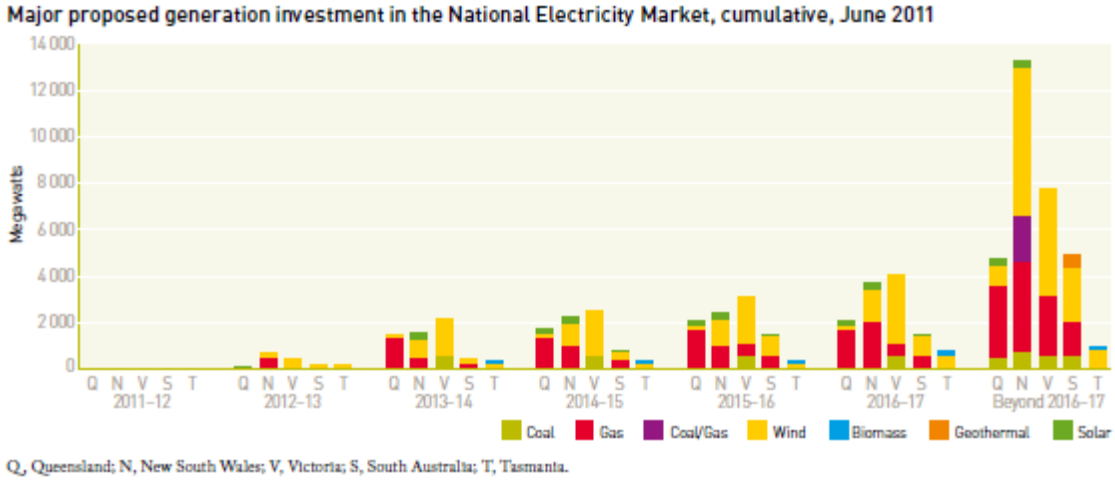
are more than six times the cost of current electricity generation. Based upon the 20% mandated RET, this alone could double the current price of electricity by 2020.

Estimated electricity generation costs of selected centralised electricity generation technologies



Source: CSIRO, 2006

Future generation sources identified by the AER (2011) shows the majority of major investment over the next five years will be in generation technologies that mostly deliver electricity at two to three times the current cost of coal base load electricity. In Queensland, significant investment is likely to be through gas-fired generation. While, to date, this has not been a significant driver of cost, there are risks that gas fuel prices may rise in the future causing upward pressure on electricity prices.



Q, Queensland; N, New South Wales; V, Victoria; S, South Australia; T, Tasmania.

Source: AER, 2011:45

However, data from the AER (2011) indicates a major driver of electricity prices in the next decade will be the investment in renewable energy technology, which will deliver electricity at a significant

premium to current prices. This investment will be underpinned by generous Commonwealth Government taxpayer funded subsidies, which will disguise the real costs of these policies.

5.2 Transmission and distribution costs

Queensland has recently experienced 14 years of Labor's mismanagement of the State's monopoly electricity transmission and distribution network. By 2003/04, the state was confronted by blackouts due to an unreliable network which had been degraded by a lack of investment. In subsequent years, reliability standards were increased and this resulted in an over-investment in the network.

During the last five years, capital expenditure on the transmission and distribution network has totalled $11,380.8 million. This resulted in an increased debt of $6477.2 million. Network costs have been the key driver of electricity price rises over this period of time. Consistent with national policy settings, this expansion in capital expenditure and related debt is paid for by electricity consumers (cost recovery). During this period, the Rudd and Gillard Governments stayed silent about this problem. In contrast, the Newman Government quickly put in place a significant reform process to address this through the establishment of an Independent Review Panel on network costs. The Panel's report is due to Government before the end of 2012.

Capital expenditure

Item	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Energex ($m)	576.6	820.4	771.2	722.3	871.0	1026.4	985.4
Ergon ($m)	n/a	n/a	806.5	841.4	844.3	806.1	830.5
Powerlink ($m)	191.0	346.7	583.5	676.5	675.0	465.5	475.2
Total ($m)			2161.2	2240.2	2390.3	2298.0	2291.1

Debt and borrowings

Item	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Energex: ($m)	2762.9	3268.5	3344.9	3843.1	4094.2	4769.8
Ergon: ($m)	1770.6	2154.7	2996.0	3689.9	3962.9	4314.7
Powerlink: ($m)	1645.3	2006.9	2516.4	3038.4	3341.0	3571.5
Growth in total debt($m)	**6178.8**	**7430.1**	**8857.3**	**10,571.4**	**11,398.1**	**12,656.0**

The resultant impact of Labor mismanagement and the vast accumulation of energy sector debt can be seen in the table below. It shows the increased interest repayments required to be made by transmission and distribution companies. Based on the numbers of residential customers, the current debt represents between $350 to $400 per annum, which is included in network costs. The Beattie-Bligh Government's debt on an average Queensland electricity bill represents more than one-third of the costs attributed to transmission and distribution.

Interest paid

Item	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Energex ($m)	129.5	169.1	196.2	212.5	224.7	294.3
Ergon ($m)	101.2	132.1	180.1	223.4	243.4	293.7
Powerlink ($m)	96.8	116.0	146.7	180.2	195.9	219.4
Growth in total interest paid ($m)	**327.5**	**417.2**	**523.0**	**616.1**	**664.0**	**807.4**

It is important to note that the mismanagement of the network and distribution entities by the former Labor Governments impacted on the profitability of Government owned network businesses. The below figures illustrate that the return of one per cent only on a capital investment of more than $20billion in the Queensland Government electricity transmission and distribution networks.

Dividends Paid 2011/12 (Source: Queensland Treasury)

Energex	$225.9m
Ergon	$255.9m
Powerlink	$146.0m
Total Revenue	$627.8m
Less - Community Service Obligation	-$422.0m
Total Revenue	**$205.8m**

5.3 Retail costs

According to Commonwealth Minister for Energy Martin Ferguson (2012:1) retail cost represent 20% of an annual 2012-13 electricity bill. Notably, these figures also include the costs of green schemes. The AER (2011:4) has identified that vertical integration between generators and retailers is driving up energy costs for independent retailers and "*may pose a barrier to entry and expansion for both independent generators and retailers*".

The Queensland Government is interested in what the AER described as the "*increasing separation between spot prices and the underlying cost of generation in some regions*" and believes that further work is required to ensure the current national market is operating effectively (on a truly competitive basis). The Queensland Government wishes to see the market operate so the benefits of competition (in both the generation and retail markets) can flow to all consumers.

5.4 The Labor-Green Carbon Tax

Using the Australian Government's estimated 10 per cent increase in retail electricity prices due to carbon pricing, the average Queensland electricity bill will increase by $190 this year as a result of carbon pricing. This estimate is based on an average household in Queensland using around 7882kwh per year, with an electricity bill of $1,900 in 2011-12. (Queensland Treasury, 2011:45)

The hidden cost associated with the Labor-Green Carbon Tax is the impact on Queensland Government owned generation assets, which are estimated to have been devalued by around $1.1billion due to the Carbon Tax and the arrangements it has in place.

The Queensland Government is concerned the current compensation arrangements favour brown coal generators and are likely to result in more brown coal being dispatched into the market. Not only does this demonstrate the cost of the carbon tax, but also the perverse outcome the arrangements that have been put in place favour higher carbon emitting generators. The Queensland Government would like these arrangements to be reviewed as a matter of priority.

6. Current cost drivers of electricity in Queensland

The variable (consumption) charge for the major domestic tariff (Tariff 11) is 23.071c/kWh. Using Ferguson (2012) as the basis the cost components are identified below:

Component		Cost
Energy –RET	1.235c	
Energy - other	3.379c	
Energy - total		**4.614c**
Retail	4.614c	
Retail - total		**4.614c**
Carbon Tax	2.076c	
Carbon Tax - total		**2.076c**
Network – interest	(a) 4.297c	
Network – Solar FIT	0.664c	
Network - other	6.806c	
Network - total		**11.767c**
Tariff 11		**23.071c**

(Excludes GST) Based on data and methodology from Ferguson (2012) and the Queensland Competition Authority (2012). Tariff 11 also contains a service (fixed) charge of 26.17 cents per day (excludes GST)

(a) Average based on $807m in interest paid per annum on network and distribution debt

From the above, the current impact of the Carbon Tax, RET and green programs represents 3.975c/kWh or 17.2% of the variable component of Tariff 11. For households consuming between 7,000 – 8,000 kWh per year this represents between $300 and $350 of their final (GST inclusive) annual electricity bill.

7. Specific responses to Senate Committee Terms of Reference

TOR (a) Identification of the key causes of electricity price increases over recent years and those likely in the future.

Response: Section 6 of this submission

TOR (b) Legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers.

Response: Network investment decisions in Queensland are dealt with through the AER. The Queensland Government has already expressed the viewpoint this needs to be overhauled. The Queensland Government has established an Independent Review Panel on network costs which has national regulatory reform of network regulation in its terms of reference. The key areas of the panel's investigations are outlined in Section 3 of the submission. Queensland Government also notes the work being undertaken by the Australian Energy Market Commission (AEMC) and the Productivity Commission into network regulation, which would appear to address this key element of the Committee's terms of reference.

TOR (c) Options to reduce peak demand and improve the productivity of the national electricity system.

Response: Reducing peak demand is a critical strategy in lowering rising network costs. The Queensland Independent Review Panel on network costs is also examining innovative options to address peak demand increases. The Queensland Government is also considering the work of the AEMC in regard to the "Power of Choice" report and will be developing a response to this critical work as part of the SCER process in the last part of 2012.

TOR (d) Investigation of mechanisms that could assist households and business to reduce their energy costs.

Response: Queensland Government supports work that provides mechanisms to assist households and business to reduce their energy costs. As outlined in Section 5.2, the Queensland Government receives approximately 1% return on its network businesses. The Universal Tariff Policy ensures consumers throughout Queensland pay the same price as consumers in Brisbane which means a significant Community Service Obligation paid annually (over $400M in 2011/12) to keep prices in regional Queensland at the level of South East Queensland. In addition, the Queensland Government also provides electricity rebates to vulnerable customers in excess of $120 million per annum.

The Queensland Government's current reform process will be examining many of the issues outlined in the committee's terms of reference and reporting back to Government in early 2013.

TOR (e) Investigation of opportunities and barriers to the wider deployment of new and innovative technologies, including:

i. direct load control and pricing incentives,
ii. storage technology,
iii. energy efficiency, and
iv. distributed clean and renewable energy generation.

Response: Queensland Government welcomes cost effective data and analysis on the wider deployment of new and innovative technologies with a particular focus on technologies that have not to date received the level of financial support of renewable energy generation but have a direct impact on rising electricity prices such as direct load control and storage technology.

Appendix A

Select Committee on Electricity Prices
Terms of Reference

That a select committee, to be known as the Select Committee on Electricity Prices be established to inquire into and report on:

a) identification of the key causes of electricity price increases over recent years and those likely in the future;
b) legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers;
c) options to reduce peak demand and improve the productivity of the national electricity system;
d) investigation of mechanisms that could assist households and business to reduce their energy costs, including:

i. the identification of practical low cost energy efficiency opportunities to assist low income earners reduce their electricity costs,
ii. the opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country,
iii. the opportunities and possible mechanisms for the wider adoption of technologies to provide consumers with greater information to assist in managing their energy use,
iv. the adequacy of current consumer information, choice, and protection measures, including the benefits to consumers and industry of uniform adoption of the National Energy Customer Framework,
v. the arrangements to support and assist low income and vulnerable consumers with electricity pricing, in particular relating to the role and extent of dividend redistribution from electricity infrastructure,
vi. the arrangements for network businesses to assist their customers to save energy and reduce peak demand as a more cost effective alternative to network infrastructure spending, and
vii. the improved reporting by electricity businesses of their performance in assisting customers to save energy and reduce bills; and

e) investigation of opportunities and barriers to the wider deployment of new and innovative technologies, including:
    v. direct load control and pricing incentives,
    vi. storage technology,
    vii. energy efficiency, and
    viii. distributed clean and renewable energy generation.
f) any related matter.

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