



Committee Secretariat
Standing Committee on Economics
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Dear Secretariat,

RE: INQUIRY INTO IMPEDIMENTS TO BUSINESS INVESTMENT

Townsville Enterprise Limited (TEL) welcomes the opportunity to provide a submission in response to the Inquiry into *Impediments to Business Investment*.

Townsville Enterprise is the principal economic peak body and regional tourism organisation (RTO) representing Townsville North Queensland, which includes the five Local Government Areas of Townsville, Charters Towers, Hinchinbrook, the Burdekin and Palm Island. Townsville Enterprise is the primary engine for economic development, charged with leveraging the region's assets and strengths to drive jobs, growth, infrastructure investment and quality of life.

Townsville Enterprise's formal response to this commissioned study will focus primarily upon the role that energy policies, at the Commonwealth and State government levels, can have on the encouragement of new business investment with some final recommendations for taxation policy. However, Townsville Enterprise would like to note that key factors affecting business investment into the North Queensland region are not limited to energy policy. Townsville Enterprise would welcome the opportunity to also comment on the need for critical enabling infrastructure such as port and rail facilities as well as the need for a population relocation and retention policy to encourage business investment, if it was perceived that this information be valuable to your inquiry.

Townsville's employment total peaked at 125,500 in December 2010 (ABS, 2016), 82% of the total working age population during that period. Since this peak, Townsville is experiencing a significant population decrease and an alarmingly reduced number of businesses registered in the local government area. These statistics are attributed to a number of economic factors which are all impacted by the resources downturn.

North Queensland supports an incredibly diverse economy, promoting strong foundations for a successful manufacturing industry, the largest Defence barracks in Northern Australia and an agricultural industry representing significant growth opportunity. For this reason, the Townsville North Queensland landscape offers a range of business, investment and employment opportunities, able to support population growth. Townsville is the largest city in Northern Australia, however current investment and policy decisions do not reflect a governing culture that supports regional economies, one of these being energy policy.

The manufacturing industry in Townsville has historically contributed significantly to gross regional product. ABS figures from January 2011 suggest that the industry contributed over 10% to North Queensland's GRP. However, recent figures suggest that energy pricing is having a detrimental effect on the industry. Total output dropped from over \$6,000M to just over \$4,000M from December 2016 to December 2017, representing a decrease in the industry's contribution to GRP of 2.2%.

Figure 1. ABS

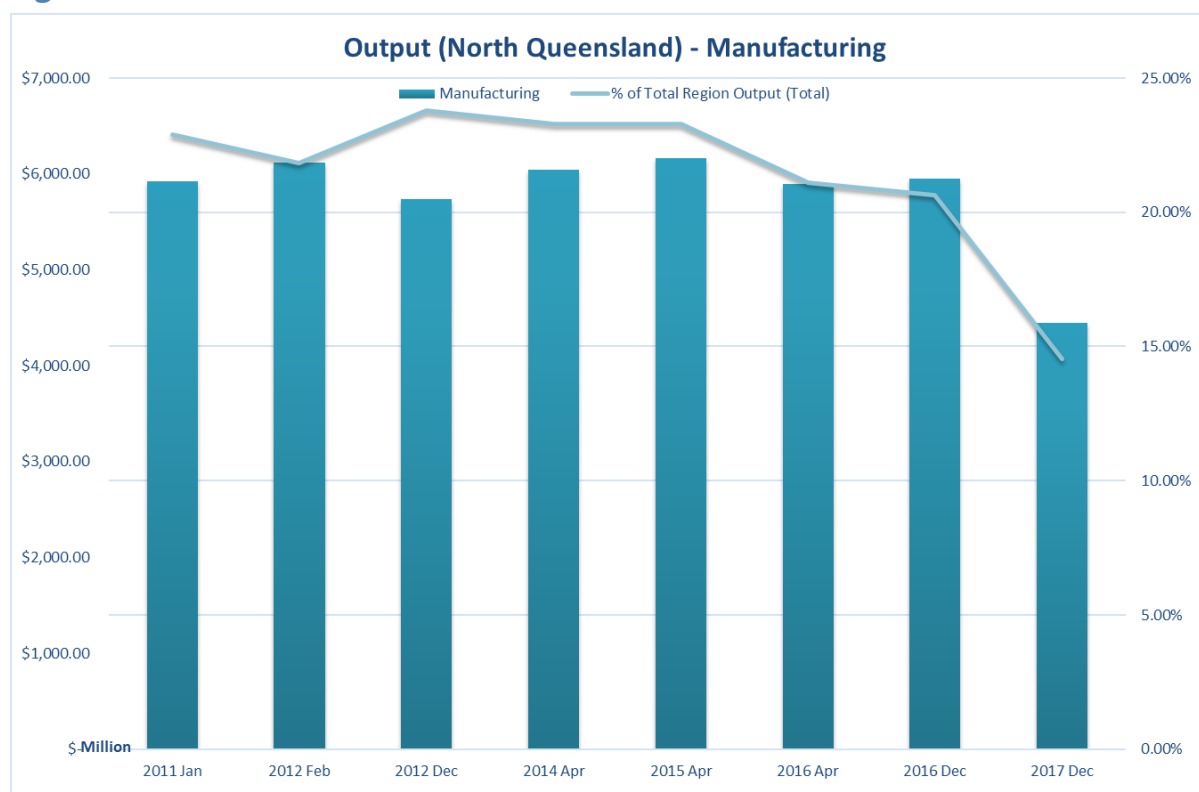
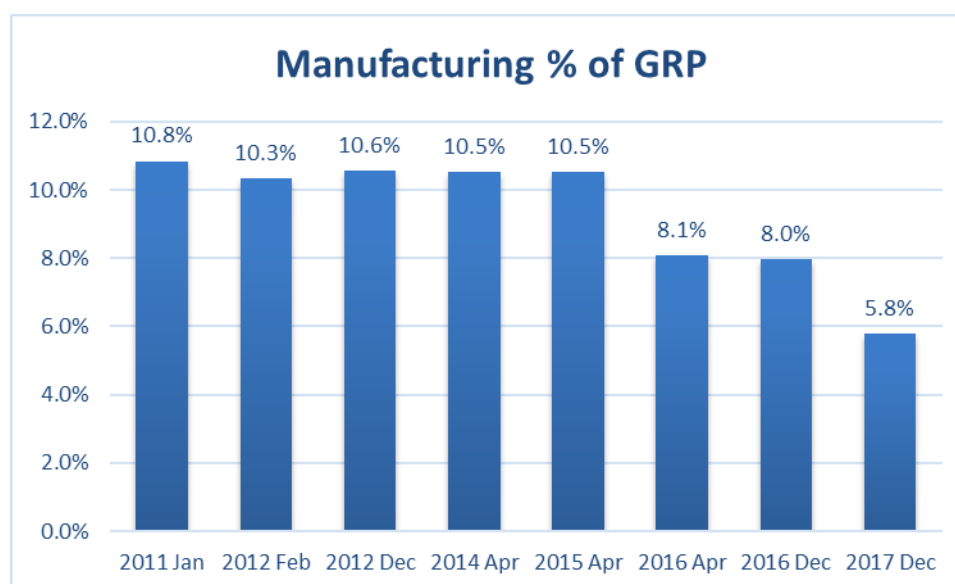


Figure 2. ABS



North Queensland electricity prices are having a crippling affect upon industry and the local economy. Base electricity prices, exclusive of network and environmental charges, have more than doubled in the past three years (between 2015 and 2017) and continue to increase at a rate of 30% year on year.

The current uncertainties over pricing and secure access to energy markets, including Townsville's lack of connection to the national natural gas network, is negatively impacting upon the national and international competitiveness of North Queensland industry, the region's capacity to attract investment and the economy's ability to generate sustainable employment.

Australia's real electricity prices have increased far more than any other OECD nation. In terms of competitive position, North Queensland has moved over the past five years from among the most cost-effective electricity producers to among the most expensive. This has occurred in an environment where the Queensland market is oversupplied with generation capacity by around 30% (Queensland Productivity Commission, 2016).

Wholesale electricity prices have increased significantly across the National Electricity Market (NEM) since 2012, with Queensland (168% increase to 2017) and South Australia (178% increase) experiencing particularly rapid price rises. Queensland prices have thus far risen by 30% in 2017.

Queensland's generation assets are more highly concentrated than other mainland NEM regions, located in the south east and central regions of the State. The State Government owns or controls the dispatch of nearly two-thirds of the generation capacity through Stanwell and CS Energy and nearly all of the State's network infrastructure/companies. Queensland's network (and distribution) costs have primarily been responsible for the increase in electricity costs over recent decades, contributing 82% of the growth in the real cost of electricity (Queensland Productivity Commission, 2016).

For North Queensland business and industry to be competitive, there is a vital need to generate more power in North Queensland. GHD's 2013 North and North-West Queensland Sustainable Resource Feasibility Study affirms that the establishment of additional largescale base load generation in the north would apply significant downward pressure to power pricing across the region – simply because of the way prices are defined by the existing flow of energy within the system. The fact is that large energy users in Northern Australia – industry, manufacturers and big business – have their energy costs made of 'energy prices', 'losses' (through transmission) and 'energy charges'. These are all government regulated charges that in many cases are determined by the flows (and losses) of energy from south to north. By generating 2,000MW of energy in North Queensland, this established power flow from north to south would thereby reverse the cycle and the impact of transmission losses and reduce regulated energy charges.

Simply put, by allowing the north to generate more energy we would be able to drive down energy costs to levels similar to major industrial centres such as Gladstone which currently enjoy a significant power price advantage. 2,000MW could be made up of a variety of energy sources, including renewables. Townsville Enterprise believes the State should use its regulatory powers to ensure that licences for the next 2,000MW of base-load energy should be allocated to North Queensland and connected to the grid north of Collinsville.

The increases in network prices in the past decade have been largely due to significant investment by the State in network infrastructure over this period to support increased reliability and service standards and strong projected demand growth. The combination of rapid price increases and soft economic

conditions have caused average consumption to fall across parts of the NEM, meaning that the projected increases in average consumption have not occurred. However, under the existing revenue cap regulatory framework lower electricity use has resulted in higher electricity prices, as fixed network costs (which are the basis for cost recovery) are spread across smaller volumes of electricity. There is a risk of losing even more customers from the NEM as innovative technologies that address the rising costs of energy are introduced into the market, further influencing how recovery of network costs are spread throughout the system. The allocation of how network charges are allocated needs to be reconsidered.

THE SOLUTION

North Queensland requires a cohesive, properly formulated national energy policy that will work to realise sustainable/ competitive energy (electricity/ gas) solutions supportive of the region's future.

The Federal and State Governments have an obligation to work together on behalf of the North Queensland community in pursuit of this agenda. The Federal Government should use its significant influence and establish policy that:

- Fast-tracks the establishment of cost effective 'clean technology' base load generation in North Queensland (seek diversification of ownership);
- The next 2,000MW of electricity generation to be licensed in Queensland must be based in North Queensland and connected to the grid north of Collinsville;
- Through COAG mechanisms secure State Government commitment to use its influence to police the behaviour of generators so that wholesale prices match costs of production – not prices driven by market distortion;
- A review of the existing regulatory framework must be expedited in order to address North Queensland's issues (this may require the establishment of a different regulatory framework to that of South East Queensland); and
- Ensure North Queensland has future access to competitively priced natural gas.

Additional recommendations relating to the role that taxation policy can have, would be to include investment incentives to encourage investment into regional communities, through either:

- Tax breaks for generating job opportunities in regional communities and
- Tax breaks for operational and setup costs in regional areas.

These policy changes would encourage companies to establish businesses in regional areas, offering opportunity for job creation outside of the nation's cities.

Without these critical policy changes, Townsville and the surrounding regions will continue to struggle to attract investment, resulting in a continued loss of business registrations and employment opportunities.