CCIQ SUBMISSION

Australian Competition and Consumer Commission

Retail Electricity Pricing Inquiry – Preliminary Report

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

17 November 2017

Overview

1. The Chamber of Commerce and Industry Queensland (CCIQ) makes this submission in response to the Australian Competition and Consumer Commission (ACCC) inquiry into the Retail Electricity Pricing Inquiry Preliminary Report.

2. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 414,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community

3. "There is a severe electricity affordability problem across the National Energy Market (NEM) and the price increases over the past ten years are putting Australian businesses and consumers under unacceptable pressure".[1] CCIQ welcomes the recognition by the ACCC regarding the overwhelming pressure electricity prices are having on Queensland small businesses. We take this opportunity to provide additional comment following the release of the ACCC Preliminary Report as rising retail electricity prices have adversely affected our members and this issue is of high importance to Queensland small businesses, both in south east Queensland and regional Queensland.

Lack of Competition

4. CCIQ has long been advocating for the introduction of regional competition into Queensland to increase services, put downward pressure on prices, and create a more efficient market. As outlined in our previous submission, Queensland is split into two regions, one regulated and one deregulated. Currently there is a Community Service Obligation (CSO) in place which provides a subsidy to Ergon Energy to cover the additional costs of providing energy to regional Queensland consumers. In 2016/17 it will come at a cost of $612.7 million[2]. CCIQ believes the network charges should be covered by a subsidy which will allow for further market retailers to enter into the market to provide greater choice for small business consumers. A lack of competition in a market provides no incentive or driver for competitive pricing.[3]

5. CCIQ also notes the ACCC comments regarding the highly concentrated wholesale market in Queensland. This issue is prevalent in all states. Over 65 per cent of our generation is controlled by Government Owned Corporations (GOC), CS Energy and Stanwell Corporation. Queensland merged Tarong Energy, its third GOC in 1 July 2011, which at the time drew concern from the ACCC. Since the restructure the market share of the GOCs has not fallen as was predicted.[4]

6. Currently Queensland is in an election period. Both major parties have suggested the creation of a third GOC portfolio to handle electricity generation assets. The Queensland Liberal National Party have committed to unwinding the Tarong merger, a suggestion

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[1] Australian Competition and Consumer Commission, (2017), *Retail Electricity Pricing Inquiry preliminary report*, Page 5.
[2] Queensland Government (2017) *Electricity Prices*, see https://www.business.qld.gov.au/running-business/energy-business/energy-pricing/electricity-prices .
[3] Heyne, Paul; Boettke, Peter J; Prychitko, David L, (2014), *The Economic Way of Thinking,* (13th ed.) pp 102–06
[4] Queensland Productivity Commission (2016) *Electricity Pricing Inquiry*, page 87.

found within the ACCC Preliminary report.[5] The Queensland Government has also proposed the creation of a third GOC, named CleanCo which will be responsible for building and maintaining 1000MW of renewable generation infrastructure. Both options would dilute the market concentration found in Queensland. According to the Queensland Productivity Commission (QPC) report, Electricity Pricing, a third portfolio could create an 8.3 per cent saving based on ACIL Allen modelling.[6]

7. CCIQ understands that vertically integrated gentailers pose a risk to new entrants. As gentailers are better able to cover any losses and capitalise on windfalls between their generation and retail assets. This means second tier retailers are typically exposed to the volatile wholesale market during times of extreme peaks. Although not a prevalent problem in Queensland as more of the market is deregulated and more market entrants grow their presence in Queensland, this is an issue the Chamber is concerned about moving forward.

8. The majority of wholesale price spikes in recent years in Queensland have not been due to supply shortfalls, but are due to the generators' bidding practices. The 30-minute settlement period incentivises generators to withhold capacity and push up prices in the first five-minute bidding period to guarantee a high overall price for the 30-minute settlement period. CCIQ supports the introduction and adoption of the five-minute settlement period. We believe this change can be implemented sooner than the Finkel recommendation timeline of three years.

Inefficient Networks

9. CCIQ has long been concerned about the highly inefficient networks in Queensland. As highlighted in the Preliminary report, Queensland networks are some of the most inefficient in Australia.

10. Pricing of Queensland's networks are highly inefficient and have put prices above the effective limit due to the assets base being overvalued. These values have been based upon investment in infrastructure over a decade ago to address expected increased demand over the next few decades. That demand never occurred, in fact demand has reduced and is expected to continue to reduce, meaning much of the infrastructure built is unnecessary but remains a cost burden to small businesses as it forms a part of the asset value when revenues and returns are calculated by the Australian Energy Regulator (AER). Productivity in the transmission and distribution networks is "...declining because the resources used to maintain, replace and augment the networks, most notably the capital inputs, are increasing at a greater rate than the demand for electricity network services". [7]

11. Decisions to collect revenues below the networks' maximum revenue caps have been made by previous Queensland Governments to provide consumer relief from excessive prices. This action can be implemented instantly for price relief.

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[5] Australian Competition and Consumer Commission, (2017), *Retail Electricity Pricing Inquiry preliminary report*, page 151.
[6] Queensland Productivity Commission, (2016), *Electricity Pricing Inquiry*, page 91.
[7] Australia Energy Regulatory, (2016), Annual benchmarking Reports, see (https://www.aer.gov.au/networkspipelines/guidelines-schemes-models-reviews/annual-benchmarking-report-2016).

Green Schemes

12. CCIQ has long advocated for the early cessation of the Solar Bonus Scheme (SBS). As highlighted in the Queensland Productivity Commission, Electricity Pricing Enquiry Final Report, the SBS has long been increasing prices for Queenslanders, "The costs associated with the SBS are recovered from all electricity customers through electricity prices. In 2015–16, the cost of the SBS is forecast to be around $300 million. This cost will contribute around $89 to a typical Queensland residential electricity bill in 2015–16."[8] The SBS also had the added effect of driving up network costs[9]. Additionally, it was highlighted that "a transfer of the SBS to the State Budget is estimated to cost around $2.8 billion over the remaining years of the scheme, at about $235 million per annum on average."[10]

13. As highlighted in the Preliminary Report, the Queensland Government took action to reduce a price increase, by moving $770 million for the next three years from the consumers bill onto the State Budget. This action was taken however 12 months after the QPC report had recommended action be taken.[11] Furthermore this is a short-term solution.

14. CCIQ has concerns post 2020 as to whether the Queensland Government will move the SBS back onto the consumer bill, once more delivering a price increase in 2020 or continue to fund the program from the State Budget, costing up to almost $3 billion to Queensland tax payers.

15. Recommendation 18 of the QPC report strongly indicates an early cessation of the SBS prior to the 2028 end date. CCIQ supports the recommendation in the QPC report.

Other

16. Competitive neutrality (CN) is the policy that a public-sector business, or agency, should not have a competitive advantage over private sector due to their government ownership.[12]

17. A CN payment should only be required in markets where private and public markets exist. As Queensland's transmission and distribution networks are 100 per cent Queensland owned with no private competition the additional competitive neutrality charge should be removed to provide immediate price relief.

Conclusion:

18. As outlined by the Preliminary ACCC report, the electricity sector is complex and opaque both nationally and in Queensland. However, there are actions State and Federal Governments can take to reduce prices in the short to long term and create a more efficient market.

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[8] Queensland Productivity Commission, (2016), *Electricity Pricing Inquiry*, page ix

[9] Ibid, page 47.

[10] Ibid, page 162.

[11] Australian Competition and Consumer Commission, (2017), *Retail Electricity Pricing Inquiry preliminary report*, page 154.

[12] The Australian Government's approach to implementing competitive neutrality is set out in its 1996 *Competitive Neutrality Policy Statement.*

19. The Chamber believes the policy recommendations as outlined herein will best suit the needs of small business consumers, and place immediate downward pressure on prices.

20. We thank you for the opportunity to provide comment on the ACCC Preliminary Report. CCIQ would welcome any opportunity to discuss this submission further. Should you have any enquiries please contact Joseph Kelly, Policy Advisor at jkelly@cciq.com.au.