Queensland Government

Queensland Treasury

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Dear Ms McIntyre

Consultation Regulatory Impact Statement – Electricity supply options for the North West Minerals Province

Thank you for your enquiry of 12 March 2021 and further information to 2 December 2021 seeking advice on the Consultation Regulatory Impact Statement (consultation RIS) titled 'Electricity supply options for the North West Minerals Province'.

Background

The North West Minerals Province (NWMP) covers approximately 375,000 square kilometres in Far North Queensland. Mining operations are centred around Mount Isa. Due to its remote geographic location, the NWMP is not connected to the National Electricity Market (NEM).

The consultation RIS notes that large customers in the NWMP pay higher prices than large customers in the NEM (estimated at $140 per megawatt hour (MWh) compared to $74/MWh to $93/MWh) due to the higher costs of electricity generation.

The Queensland Government has received an unsolicited proposal to build a transmission line connecting the NWMP to the NEM near Townsville, from a private sector company, CuString Pty Ltd (CuString).

For the proposal to proceed, CuString would require a regulatory change to current NEM rules so that residential and large customers in Queensland (outside the NWMP) would meet a portion of the costs.

Proposal

The Department of Energy and Public Works (the department) has prepared the consultation RIS to assess options to reduce electricity prices for industrial consumers in the NWMP.

The consultation RIS presents the following options:

- option one – maintain the status quo, based on a 'business as usual' (BAU) scenario
- option two – introduce legislation to remove the requirement for a Regulatory Investment Test-Transmission (RIT-T) under the *Electricity - National Scheme (Queensland) Act 1997* and apply differential regulated pricing arrangements through a bespoke framework, administered by the State (Copperstring 2.0)

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- option three – assess CopperString 2.0 through an amended RIT-T to consider the project's broader economic benefits, and deliver and operate the project in accordance with standard Australian Energy Regulator (AER) regulatory allowances (CopperString 2.0 through AER RIT-T framework).

Assessment

In undertaking its assessment of a consultation RIS, the Office of Best Practice Regulation (OBPR) has regard to 'adequacy criteria' in the Queensland Government Guide to Better Regulation (the guidelines). Key elements include presenting evidence of a policy problem requiring government action and analysis of costs and benefits to identify the option that maximises the net benefit to the community.

The OBPR notes the unique nature of the proposal, the uncertainty in relation to impacts and that the consultation RIS focuses primarily on the CuString proposal. The OBPR also notes that the RIS presents some quantitative assessment of the potential impacts on residential customers, business and taxpayers and identifies a range of advantages, disadvantages and risks. As such, the RIS should allow the community to assess the options to reduce delivered electricity prices within the NWMP.

On this basis, the OBPR considers the consultation RIS adequate for the purpose of public consultation.

Consultation with stakeholders, which should occur for a minimum of 28 days as required under the guidelines, should assist in informing and gathering evidence to further assess the regulatory proposal.

To be considered adequate for decision-making purposes, the Decision RIS will need to:

- provide evidence of the nature and scale of the problem in terms of any price inefficiency and enduring impediments to efficient price outcomes in the NWMP
- estimate the impacts of all feasible options to address the identified problem, including costs and benefits on:
    - households and small businesses across Queensland
    - large industrial users in the NWMP
    - existing asset owners
    - taxpayers.
- consider the effects of any proposed government intervention on incentives to invest in generation, storage and transmission assets, within and outside the NEM
- demonstrate that the benefits of the recommended option outweigh the costs to consumers and taxpayers of any (direct or cross) subsidies, and that it delivers the greatest net benefit to Queensland.

Consistent with the guidelines, once a consultation RIS has been approved for release it is published on the OBPR's website along with this letter. After consultation has concluded, a Decision RIS should be provided to the OBPR for assessment before the matter is referred to Cabinet for decision.

Please contact Scott Kompo-Harms, Principal Economist, on (07) 3035 3484 if you require any additional information or guidance concerning the above comments or the guidelines in general.

Yours sincerely



Dr Karen Hooper
Productivity Commissioner

3 December 2021