

GMN WK/KD
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Standing Committee on Primary Industries
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Dear Sir/Madam

INFRASTRUCTURE AND REGIONAL DEVELOPMENT – ISSUES PAPER SUBMISSION TO PARLIAMENTARY STEERING COMMITTEE

PURPOSE

The purpose of this paper is to highlight various issues that appear to impact on economic development of regional areas across Australia. In particular, this paper will focus on the North Queensland area and the economy contained within that region. The issues outlined in this paper are not intended to criticise the various policies that have been employed. Rather, it seeks to indicate areas of possible improvement, bearing in mind the nature of regional economies, as opposed to those in the more densely populated metropolitan areas of Australia.

The issues highlighted herein are based on market commentary from within the electricity industry, and provide a view of regional development and infrastructure from an electricity industry perspective.

INTRODUCTION

The North Queensland economy, and in particular the Townsville regional economy, are currently experiencing good growth levels and the outlook is positive. The development of the Carpentaria Minerals province, and the economic spin offs that are currently being experienced by the heavy investment in these projects, cannot be underestimated. This is positive for the region due to the fact that these are new investments that represent long term commitments in the area (some 20 years), and the result is one of sustained economic growth.

These new investments enhance and complement the existing and traditional sectors of the economy that founded and established the Townsville regional economy – Agriculture, Mining, Mining related services, Government Administration, and Infrastructure provision. However, as markets deregulate and evolve toward globalisation, increased competition in markets is resulting in the commercial realities associated with maximising shareholder value prevailing above all other issues. For large-scale development, the provision of essential services – electricity, water, telecommunications, roads, and the like, in some cases represent some of the major establishment costs associated with the project. In certain instances, these costs are the critical factors in determining whether companies invest their projects in the region or not. The challenge is to provide these essential infrastructure services at internationally competitive rates, whilst not compromising on the quality of the services provided.

AN ELECTRICITY INDUSTRY PERSPECTIVE

The implementation of National Competition Policy has its benefits associated with providing a more open and free market, delivering more choice to customers, providing more economical services, and improving the efficiency of the industry in the marketplace. There is no doubt that this policy does achieve that – to some degree. Recently in Queensland we have witnessed the implementation of price deregulation and competition to the second “tranche” of customers (that is the second largest consumers of electricity in the State). In the NORQEB region, we have seen only a minor percentage of these customers transfer to the competitive regime. No doubt one of the significant reasons for this, is the fact that the price savings did not compare favourably to the prices that these particular customers are currently paying under a regulated price structure.

It is arguable that given the remote location of these large regional customers, the electricity losses on the system associated with those distances bear some uneconomic factors. Therefore the “network charges” (Transmission Use of System and Distribution Use of System) associated with the total electricity costs, are impacted by the geographic location of customers. This is because of the long lengths of line associated with transporting power to the customers’ site. If this is the case, it lends support to the development of more electricity generation capacity based in the North Queensland region. This will provide for a reduced amount of system losses to customers in the region, and may change perceptions of a higher electricity price being paid in North Queensland. Whilst electricity infrastructure input costs are generally not the highest costs of production, it can represent a significant impost to the customer depending on the electricity intensiveness of the business, and the location of the project.

A further issue associated with the implementation of National Competition Policy reforms, specifically for the electricity industry, is that the traditional supply chain has been restructured. That is, with electricity generation, transmission, distribution, and retail, under one corporate structure the supply chain was, by its nature, controlled and tightly managed. However, with deregulation, individual companies are now competing with their once supply chain partners, in order to secure new revenue streams and ultimately new forms of profit generation. This has led to the inevitability that companies are now communicating with each other less about their routine plans, and endeavouring to secure market share away from each other.

Traditionally, one of the elements associated with planning the electricity system has been to follow investment. It has not been industry practice to construct an electricity network where there is no development, on the expectation and anticipation that the industry investment and development will follow. Consequently, it has not been the responsibility of electricity authorities to finance the risk associated with individual projects. As such, structures and processes have been established to facilitate this approach.

The electricity industry is an extremely capital intensive business. Should a strategy be adopted to reverse the above traditional approach, and have electricity networks designed, planned and constructed around locations that carry an expectation (or are forecasted) to attract major investment and development, several issues are raised.

Firstly, innovative and new pricing arrangements for infrastructure development would need to be considered. For example, elements such as Total Factor Productivity could be included in the calculations, and used as an input into not only justification, but the decision making process for infrastructure development.

Secondly, given the capital intensity of the electricity distribution business, strategies would need to be established that allow for increasing utilisation and effectiveness levels of the existing system, while simultaneously constructing new networks in speculative areas, with greater levels of associated risk. Unfortunately, reliability of supply does come at a cost. In order to maintain reliability standards at internationally acceptable levels, while increasing

GMN WK/KD
16 April 1999

financial risk associated with speculative networks, will require a significant change in direction, priorities, strategy and financial management. The commercial reality is that the risk would have to be extremely well managed and hedged, ensuring positive returns on investment.

Thirdly, a more integrated, collaborative, and expedient, approach between all major essential service providers would need to be carried out in the planning stages. For example, alignment across the spectrum of services such as roads, telecommunications, water, port, and electricity development, would provide a total infrastructure solution in a speculative area, increasing the attractiveness of the location to private investment. That is, it is more likely that major private investment would more carefully consider a location if all of these services were available, rather than merely one or two. A good example of where this kind of integration and co-operation of major infrastructure provision is carried out, is the combined effort in developing the Townsville/Thuringowa Strategic Plan. The identification of Woodstock as the next major industrial base in the area has been well communicated and incorporated into current planning activities. Similar concepts, such as Industrial Parks, also assist in providing a stimulus to attracting major economic development to the region.

Fourthly, investment in alternative technologies would need to be considered in significantly more detail. The underpinning driver for this is the need to determine a cost-effective alternative for electricity network infrastructure provision. That is, to find a realistic, cost beneficial, alternative approach to transporting power, other than existing methods of transmitted supply. This would eliminate the need to construct capital intensive networks in speculative areas, while adequately matching the expected electricity needs in the area with modular, compact units. Asset utilisation is increased, as such technologies can be easily re-located and used in other areas, should the speculative region prove uneconomic. Electricity companies are considering these kinds of applications across the world, however, at the present time the technology and associated costs are proving too prohibitive. An example of this kind of application is the Remote Area Power Supply [RAPPS] scheme in the Boullia region. This project was not a great success, and did not provide a good return on the value of the asset.

OTHER ISSUES

Some of the other issues that are relevant to this topic, which are not discussed in detail for the purposes of brevity are:

1. There are considerable differences in the costs of living associated with residing in the more remote and isolated communities of Queensland. This is evidenced by the trend and tendency for mining companies to prefer fly in/fly out operations, rather than establishing their workforce on site or in the immediate local regional vicinity. This has an impact in the remote areas where mineral deposits are found. The local area only benefits in a minor way from the economic multiplier effect. Therefore, increases in employment opportunities, revenues for local businesses, social economic benefits (ie public facilities), and the like, are transferred to the fly in/fly out base, or a capital city.
2. Taxation relief/rebate incentives for rural areas may need to be reviewed. The implementation of the GST will have an impact on the regional economies, and to what quantifiable extent, has yet to be determined with any full degree of certainty.
3. There are more factors to consider in project planning. Multi-layers of government interpretation on the same issues make it difficult to reach decisions quickly. For example environmental issues and native title issues.

GMN WK/KD
16 April 1999

4. The various approvals and notifications to all levels of government agencies are now more complex, and in some cases have much more rigid requirements, guidelines, and criteria.

CONCLUSION

The above attempts to articulate some of the major issues that are challenging business operations in regional areas, particularly from an electricity infrastructure providers' point of view. One of the significant issues that should be kept in mind, is the fact that the composition and operations of a regional/remote economy are different to those of a metropolitan area. Given the great differences in population size, levels of per capita income, amount of disposable income, taxation rates, and others factors, certain regional economies require more intervention in provision of essential infrastructure services, not less. If infrastructure companies have no option (or incentive) other than to provide for maximum financial returns, then remote rural community benefits, and development of essential infrastructure services in regional areas will suffer and eventually decline. Given the remoteness and vast distances of the Queensland State, it is uneconomic to provide capital intensive services to areas that do not offer, or at best, provide very marginal returns on investment. Government assistance is required to initiate infrastructure development and provide the incentive for private investment. Once this situation develops, the flow on effects will allow for a self-sustaining environment.

Yours faithfully

W Kennedy
GENERAL MANAGER NETWORKS