

Ergon Energy Corporation Limited



2013-14 Feed-In Tariff *Pass Through Application*

Australian Energy Regulator

31 October 2014

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Introduction

Clause 6.6.1 of the National Electricity Rules (NER) provides that a Distribution Network Service Provider (DNSP) may seek approval from the Australian Energy Regulator (AER) to pass through to distribution network users the impact of a positive pass through event. As defined in the NER, pass through events include those events nominated in a distribution determination as a pass through event.

The AER's Final Queensland Distribution Determination for the period 1 July 2010 to 30 June 2015 (2010-11 to 2014-15) (Distribution Determination) provided for specific nominated pass through events to apply to Queensland DNSPs. Section 15.5.1 of the Distribution Determination nominated a feed-in tariff event as a specific nominated pass through event.

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a DNSP in Queensland, herein applies to the AER for the pass through to distribution network users, the difference between the amount of feed-in tariff payments incurred for 2013-14 and the amount forecast in Ergon Energy's Distribution Determination for 2013-14, with respect to the Queensland Government's Solar Bonus Scheme.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

Feed-In Tariff Cost Pass Through

Ergon Energy makes the following comments in regards to the Regulatory Requirements, and details of the Positive Change Event, including calculations of the Cost Pass Through Amounts as pertaining to this application.

Regulatory Requirements

Section 15.5.1 of the AER's Distribution Determination for Ergon Energy states a feed-in tariff event means a change in the total amount of direct feed-in tariff payments paid by a QLD DNSP in respect of the QLD feed-in tariff scheme. For the purposes of this definition, the change in the amount of the direct tariff payments paid by the DNSP must be calculated as the difference between the amounts of:

- direct tariff payments paid by the DNSP in each regulatory year of the next regulatory control period, derived from the metered output of generators subject to the scheme and the applicable feed-in tariff rate applying to the metered output; and
- scheme direct tariff payments which were forecast for the purpose of and included in the QLD distribution determination for each year of the regulatory control period.

Relevant direct tariff payments under this pass through mechanism are those paid through the operation of the *Electricity Act 1994* (QLD), and any amendments to this act.

In assessing a cost pass through application for a positive change event, whether it be a specific nominated event, a general nominated event or an event defined in the NER, the AER is to take account of the relevant factors listed in clause 6.6.1(j) (1) – (8) of the NER. These matters include:

- the increase in costs in the provision of direct control services that Ergon Energy has incurred and is likely to incur until the end of the regulatory control period as a result of the event [clause 6.6.1(j)(2)];
- the efficiency of Ergon Energy's decisions and actions in relation to the risk of the positive change event occurring, including whether it has failed to take any action that could have reasonably reduced the magnitude of the eligible pass through amount [clause 6.6.1(j)(3)];
- the time cost of money based on the allowed rate of return for Ergon Energy for the relevant regulatory control period [clause 6.6.1(j)(4)];
- the need to ensure that Ergon Energy only recovers any actual or likely increment in costs to the extent that such an increment is solely as a consequence of a pass-through event [clause 6.6.1(j)(5)]; and
- whether the costs of the pass through event have already been factored into the calculation of Ergon Energy's annual revenue requirement [clause 6.6.1(j)(7)].

Positive Change Event

Ergon Energy became subject to the Queensland Government Solar Bonus Scheme (SBS) obligations on 1 July 2008, and is obliged to make feed-in tariff payments to customers through the operation of the *Electricity Act 1994* (QLD). During 2013-14, some 17,700 new solar energy (photovoltaic) systems were connected to the network (down from the 32,000 solar-connections and the associated meters installed in 2012-13).

The spectacular growth of solar photovoltaic (PV) panels has been partly attributed to the State Government's original 44 cents per kilowatt hour feed-in-tariff (FIT). The number of premises with PV panels on Ergon Energy's network has seen a 50-fold increase in five years and as at 30 June 2014, over 97,000 customers had connected solar PV. This incorporates 16% of Ergon Energy's entire residential customer base, accounting for approximately 21% of all detached residential houses in regional Queensland. As a result, costs for the feed-in tariff have considerably exceeded Ergon Energy's expectations for 2013-14.

Table 1 details a summary of costs incurred for the feed-in tariff for 2013-14 (verifiable from corporate systems). A confidential extract from Ergon Energy's accounting system is attached as supporting documentation. Refer to **Appendix A (CONFIDENTIAL)**.

Feed-in tariff payments have been separately identified in Ergon Energy's audited 2013-14 Annual Performance Regulatory Information Notice (2013-14 AP RIN) as submitted on 31 October 2014. Specifically, FIT payments are reported in Template 10 Network operating costs (including overheads), Table 3: Other operating costs, being the general ledger amount. The FIT payments are also included as part of the Other Opex costs in Table 1: Opex for EBSS purposes in Template 18: EBSS.

As a matter of note, this application consists of Ergon Energy's expenditure to Ergon Energy Queensland (EEQ) for their retail customers, as well as payments to second tier retailers. Ergon Energy records FIT payments to retailers in the Ellipse general ledger in a specifically assigned expense element. Consequently supporting documentation has been provided to substantiate inter-company transactions between Ergon Energy and EEQ, and payments to Tier 2 retailers.

Whilst Ergon Energy has transitioned accounting for feed in tariffs to an accruals basis (aligning to the basis applicable to the Cost pass Through application), for the first time this regulatory control period Ergon Energy has commenced accrual accounting for unbilled network charges (including unbilled feed in tariff amounts). Ergon Energy has to date, been unable to undertake accrual accounting for unbilled network charges as it was not able to reliably estimate revenues associated with the transaction in accordance with requirements *Australian Accounting Standard AASB 118 Revenue* (“AASB118”). During 2013-14, external resources were engaged to develop appropriate analytical capability to allow Ergon Energy to accurately estimate a network charges figure monthly, including billed and unbilled consumption. Accordingly, Ergon Energy has commenced recognising revenue derived from the rendering of services in the period in which the services are provided, as relative to unbilled network charges. This remains in alignment with the basis applicable to the Cost Pass through application.

An opening balance adjustment was processed to ensure that the costs being passed through only relate to account movements for 2013-14 period minimising the impact of this change in accounting policy. Please note that the amount reported in Template 10 Network operating costs (including overheads), Table 3: Other operating costs also includes this opening balance adjustment.

Ergon Energy’s forecast of the AER approved feed-in tariff payments included in the Distribution Determination for the 2013-14 year was \$3.64m (\$2009-10).

The difference between the actual and forecast feed-in tariff costs for the 2013-14 year is set out in Table 3. Adjustments to costs were first required, to account for the consumer price index (CPI) and the time value (refer Table 1 and 2). In addition, the amount of FIT payments incurred as captured in the general ledger have been reduced (as per prior years) for those payments made for customers in Isolated Regions and for incorrect tariff payments identified. Finally, an adjustment was required in moving to recognise unbilled network charges.

Ergon Energy proposes the amount of \$135,031,238 as the eligible pass through amount¹ in respect of the feed-in tariff event, and accordingly this positive pass through amount² should be passed through to distribution network users via network charges in 2015-16.

Table 1: Positive Pass Through - Inputs

	Measure	2010-11	2011-12	2012-13	2013-14
CPI (Mar – Mar)	Per cent	3.26	1.63	2.50	2.93
FIT forecast	\$ 2009-10				3,638,179
Actual FIT Payments	\$ Dec 2013				120,083,141
Less: Isolated Customers					(121,863)
Less: Incorrect tariff payment					<u>(183,922)</u>
FIT Actual	\$ Dec 2013				119,777,356

¹ In accordance with clause 6.6.1(c)(3) of the NER

² In accordance with clause 6.6.1(c)(4) & (5) of the NER

The actual inflation rate (CPI) has been obtained from the Australian Bureau of Statistics (ABS) website as the weighted average of 8 capital cities. To align with Ergon Energy's Pricing Proposal, the annual inflation rate is for the year ended 31 March.

Actual feed-in tariff payments are considered to be made in the middle of the regulatory year (\$31Dec2013), and are net of payments made to customers in Isolated communities but include payments to Tier 2 retailers.

Table 2: Positive Pass through Amount - Input

	Measure	Ergon Energy
Allowed Rate of Return	Per cent	9.72

The nominal vanilla WACC used in the calculation of the positive pass through amount is based the AER's WACC parameters in the Final Determination for 2010/11-2014/15.

Table 3: Positive Pass through Amount - Calculation

	Note	Measure	2013-14
Metered output of generators subject to the scheme	a	KWh	298,133,296
FIT forecast adjusted	b	\$ Jun 2014	4,027,984
FIT actuals adjusted	c	\$ Jun 2014	121,519,241
Under/ over recovery	d	\$ Jun 2014	117,491,257
Interest on Under / over recovery	e	\$ 2015/16	17,539,981
2013/14 Positive Pass through amount	f	\$ 2015/16	135,031,238

Notes:

- a. Metered output of generators subject to the scheme is net of generation in Ergon Energy's Isolated regions. No adjustment is required to KWh for incorrect tariff payments as this is a monetary adjustment only.
- b. FIT AER approved forecast has been escalated by four year's CPI to current year terms (\$Jun14), to arrive at the FIT forecast adjusted amount;
- c. Actual payments are escalated by half a year's CPI to end of year terms (\$Jun14), to arrive at the FIT Actuals Adjusted amount;
- d. Difference equals the adjusted actual payment less the adjusted forecast.
- e. The rate of return is applied to take into account the time value of money. It has been applied for a time period of 18 months to reflect the delay from the end of the regulatory year in which the event occurred (2013-14) to the middle of the regulatory year in which the pass through amount will be passed on to Ergon Energy's customers (2015/16).
- f. The positive pass through amount is based on the difference, with an adjustment to account for the time value of money (interest).