

An Overview

Our Tariff Structure Statement 2020-25

June 2019





Message from our Chief Executive

“We know that electricity affordability is a critical issue for our customers – both from a cost of living and business competitiveness standpoint.

This has seen us working hard to deliver price reductions through our forward investment plans and develop network tariffs that are cost reflective, simple, fair and equitable.”

David Smales
Chief Executive Officer

Thank you for your continued interest in how we are reforming our network tariffs from 2020 to 2025, and what that means for our customers’ distribution network charges throughout regional Queensland.

As part of our updated Tariff Structure Statement (TSS) for 2020-25, over the past 18 months we have been engaging directly with our communities, customers and their representatives on our next round of network tariff reforms. The feedback we have received has been invaluable. This latest collaboration also builds on the previous five years of community and customer engagement on network tariffs.

This thoughtful and comprehensive feedback has informed and guided our thinking as we developed our network tariff strategy. Following publication of our TSS to the AER in January 2019 and further consultation with our key stakeholders and customer advocates, we have made some changes to our proposals. We believe that the proposed changes to our TSS better reflect the views and opinions of our stakeholders and customer advocates while providing, on balance, better tariff outcomes.

This updated Customer Overview sets out the customer and stakeholder engagement undertaken, what our customers and stakeholders have told us in relation to key tariff issues and an explanation of the proposed

network tariffs for our distribution network area over this forthcoming five-year regulated period, 2020-25.

Importantly, our customer and stakeholder engagement on tariff reform does not end with this updated submission on our TSS. Over the next year, we will continue to engage with our customers and stakeholders to achieve the best overall outcomes for all customers and ensure our network tariffs remain relevant into the future. This will include further engaging with our customers and stakeholders during the remainder of 2019 on network tariff options and the best pathway to successful network tariff reform. Our proposed network tariff options are set out in the updated TSS Explanatory Notes provided as part of our updated TSS submission published on 14 June 2019.

I’d like to thank all of our customers and stakeholders who have had input on our network tariff reform engagement and consultation to date. Their contribution and continued interest is vitally important as we look to deliver the right outcomes for both our customers and our communities throughout Queensland.

Yours truly,

A handwritten signature in black ink that reads "David C Smales". The signature is written in a cursive, slightly slanted style.

David Smales
Chief Executive Officer



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In keeping with our commitment to connect respectfully with Aboriginal and Torres Strait Islander peoples and communities, we acknowledge Aboriginal and Torres Strait Islander people as the first people of Australia and the Traditional Custodians of this land and its waters. We pay our respects to Elders past, present and future for they hold the memories, the traditions, the culture and knowledge of Aboriginal Australia.

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Who we are

We are proudly part of the Energy Queensland Group, a Queensland Government-owned organisation, and together we strive to deliver on our vision to energise Queensland communities. As Energex and Ergon Energy, our role is to operate the distribution networks across Queensland. While we are one of several electricity distribution network service providers (DNSPs) in Australia, our operating environment differs somewhat due to:

- A high probability of extreme weather and extended storm seasons
- Stringent vegetation management requirements
- An extensive sub transmission network
- High rates of uptake of photovoltaic (PV) solar systems.

Our charges for the use of electricity networks in Queensland are passed on to customers through electricity retailers and make up about a third of customers' electricity bills. Other bill components include generation, transmission and retail costs.

This document is only concerned with the network tariffs for the electricity distribution services provided by us in our service area, as regulated by the AER.

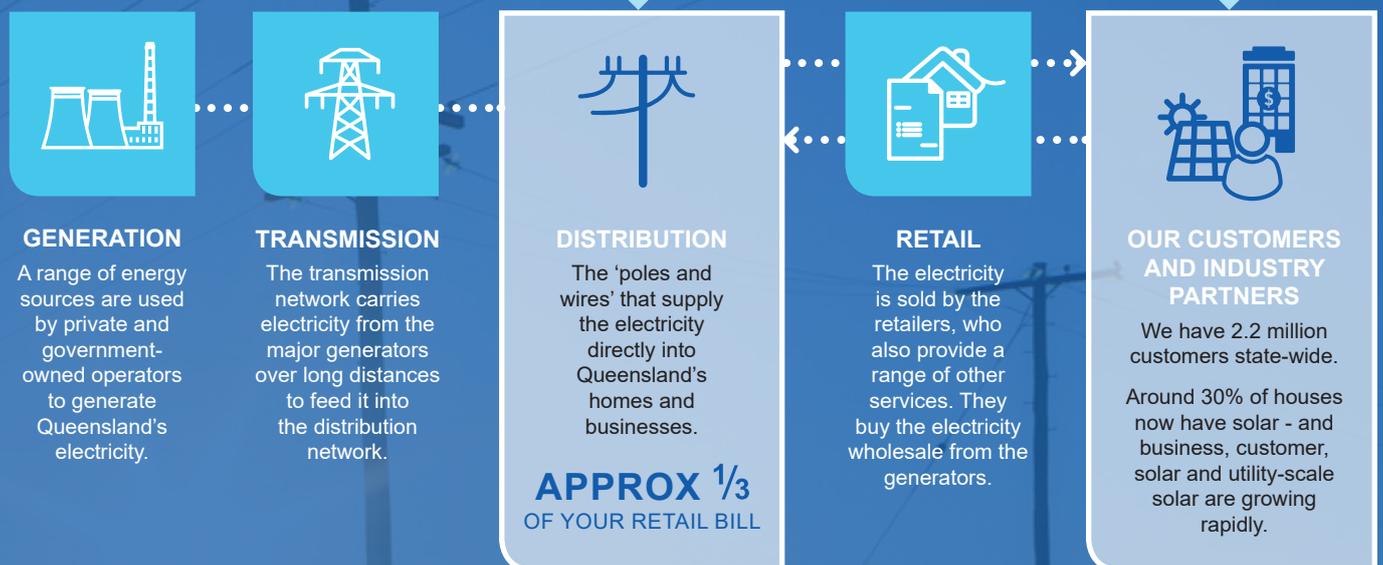
We operate an electricity distribution network covering 97 per cent of the geographical area of Queensland, which comprises the 'poles and wires' that deliver electricity in a safe and reliable manner to homes and businesses:

- About 70 per cent of our electricity network runs through rural Queensland, typically with large distances between communities

- We provide electricity distribution services to circa 750,000 customers
- The bulk of the electricity we distribute is carried across large distances by Powerlink to our connection points, because base-load generation is located remotely. However, increasingly we also connect and support distributed generation, such as solar PV and embedded generators
- Electricity retailers issue customers electricity bills and they pay us for our distribution services.

Excluding our isolated networks, we have three distinct tariff zones - East, West and Mount Isa. While separate tariffs for each zone have been provided in our TSS, we refer to these zones as a whole in terms of network tariff strategy.

The electricity industry



How we've engaged

Each year the Queensland Competition Authority (QCA) determines regulated retail electricity tariffs - the 'notified prices' that Ergon Energy Retail charges customers in regional Queensland. The impact of our network tariffs on the regulated retail prices varies for each customer group. For the majority of customers the retail bill is subsidised by the Queensland Government in line with the Uniform Tariff Policy. This policy, and the associated Community Service Obligation payments, ensures that Queenslanders generally have access to the same cost of electricity, regardless of where they live.

For residential and small-to-medium business customers who use less than 100MWh of electricity a year, the Uniform Tariff Policy generally requires regulated retail tariffs to reflect network charges in Queensland's south-east. However, our network tariff reforms are helping to introduce greater choice for this group. For businesses using more than 100MWh of electricity a year, our network tariffs are typically passed through into the regulated retail prices. However, there are exceptions, including some of our recent reforms. The impact of our network tariffs also depends on whether a customer is on the Queensland Government's regulated retail prices or on a contract with a competitive retailer. For customers on a 'market contract', their retailer will determine how they pass on our network tariff structures.

We acknowledge the time and resources invested by a diverse range of our customers and stakeholders who have participated in our engagement program and helped shape the development of our initial and updated TSS. Their contribution has helped guide both the network tariff reforms progressed to date and those now detailed in our updated TSS.

When we first began to consider our network tariff reforms, we recognised the potential for impacts on our customers and acknowledged the important contribution that our customers, stakeholders and customer advocates, insights could make towards the development of our tariff reform pathway.

We have been actively listening to our community stakeholders, our different customer segments, and our industry partners to better understand what really matters to them as we prepared both our initial and updated TSS. We were listening to feedback before we prepared our 2017-20 TSS submission and we have continued this process of genuine consultation throughout 2018 and 2019.

Our engagement program included:

- TSS customer and stakeholder Working Group sessions
- Webinars
- Consultation and technical briefs
- Industry Forums
- Customer Forums by segment
- Regional Community Leader Forums
- Individual one-on-one stakeholder meetings
- Qualitative and quantitative residential and business customer research
- Online engagement and communication through our bespoke Talking Energy engagement platform - www.talkingenergy.com.au
- Business as usual engagement activities conducted by senior employees throughout Queensland.

This engagement also included the AER, Energy Networks Australia, Energy Consumers Australia, various energy retailers, Queensland Government agencies and Powerlink Queensland.

A snapshot of the extent of our engagement, which coincided with the consultation process for our Regulatory Proposal, is shown in the diagram on the opposite page.

The specific details of our TSS engagement program and related activity was developed as part of the initial TSS in January 2019 and can be found in our *Tariff Structure Statement 2020-25 Engagement Summary Report (31 January 2018)* available at www.talkingenergy.com.au

Further consultation opportunity

The development of our TSS has coincided with a period of change in the role of the network and the investment drivers it faces.

Over the last two regulatory control periods network investment has primarily been driven by peak demand. Stakeholder feedback has noted how the role of the network is changing from a traditional deliverer of energy to an enabler of an ecosystem of distributed energy resources (DER). In response to this feedback new tariff options have been proposed that are better aligned with these emerging network characteristics.

Since the submission of our initial TSS to the AER on 31 January 2019, we have undertaken further consultation with our stakeholders and customers. The insight obtained from this further consultation has influenced changes to that TSS with an updated TSS submitted to the AER on 14 June 2019. We are proposing to prepare and publish an updated Engagement Summary Report that summarises the customer and stakeholder feedback received since January 2019.





INDUSTRY PARTNERS

We listened to 2,600+ of our industry partners

Real Estate Developer Forum
2 sessions held

Electrical Contractor Forum
12 sessions held

Energy Retailer Forum
2 sessions held

Voice of the Customer program
1,500 service surveys annually

Energy Retailer Forums/ Meetings
8 sessions held

We also receive over half a million customer calls annually, as well as countless other service interactions



END USE CUSTOMERS

We listened to 19,400+ of our end use customers and their representatives

Customer Council
6 sessions held

Regulatory Proposal – Tariff Structure Statement Working Group
12 sessions held

Tariff Webinars
11 hosted

Major Customer Forum
2 sessions held

Agriculture Forum
5 sessions held

Voice of the Customer program
10,500 service surveys annually

Individual customer and small group
15 sessions held

Targeted Industry Forums
2 sessions held

Independent Research

Residential deliberative forums
4 sessions held

Business focus groups
10 sessions held

Qualitative phone interviews including Western Zone
38 sessions held

Digitally excluded focus groups
2 sessions held

Quantitative residential and business online surveys
2,891 surveys

Annual Queensland Household Energy Surveys
4,957 surveys



COMMUNITY STAKEHOLDERS

We listened to 2,500+ of our community stakeholders

Stakeholder Engagement
5+ Board networking events

Talking Energy
2,000+ engaged online

Community Leader Forums
5 sessions held

Mini/Follow Up Community Leader Forums
7 sessions held

Our Draft Plans Webinar
1 hosted

Local Council and MP engagements
90+ council visits

Public Lighting Forum
8 sessions held

What we've heard

Through our engagement with stakeholders and customers, together with our market research, we have heard that our customers want more affordable network tariff options, while maintaining current standards of network reliability, and future network investment that delivers sustainability in terms of renewables and energy management.

We've heard that our customers want to be informed and enabled and for us to evolve our network tariffs to cater for their changing needs into the future. Customers want us to introduce network tariffs that they can understand and that provide them with

choices that better enable retailers and customers to select a network tariff that best suits their lifestyle/business needs.

A snapshot of the key feedback themes is captured below against our customer commitments.

Underpinning all of these themes was a clear message from customers and stakeholders that network tariffs need to be simple, transparent, equitable and flexible, and that network tariffs should support greater levels of customer choice and control. These key themes and messages form the pillars of our updated TSS.

Tariff Reform

Many of our existing legacy tariffs were developed in the early 1990s in a period without widespread proliferation of rooftop solar and air-conditioning or the introduction of batteries and electric vehicles. As such, many of our customers had similar energy needs, allowing us to provide generic tariffs to recover our network supply costs.

Large scale uptake of energy-intensive appliances and new technology to supplement or alter access to energy mean that our current tariffs no longer support a fair and equitable allocation of network costs. Indeed, cross subsidies between customers have started to appear across the network that are challenging us to develop a suite of new tariffs to maintain our commitment to safety, affordability, security and sustainability for all customers.

Tariff reform is a critical element in addressing these challenges while continuing to deliver affordability and choice to customers.

SAFETY FIRST



Our number one priority is safety – our commitment is to the people and communities who we work with and support every day. We aspire to be an industry leader in health, safety, environment and cultural heritage.

AFFORDABILITY



- Deliver lower bills now
- Move to sustainable pricing structures for the future
- Build trust and transparency in how we minimise our costs
- Minimise cross subsidies for fairness
- Provide social equity

SECURITY



- Keep the lights on
- Restore power in emergencies
- Provide timely, affordable and easy network connections

SUSTAINABILITY



- Facilitate energy transformation and customer choice
- Facilitate renewables
- Facilitate energy efficiency
- Keep customers informed



What's new in this updated TSS

Introduction of New Tariffs

Our updated TSS introduces a new suite of cost-reflective 'opt-in' network tariff options for our residential, small business and large business customers that have a digital meter installed. This suite of tariffs is a crucial step in our commitment to network tariff reform, while managing customer bill impact – and providing customers with choice in how they pay for using our network.

Transition to Cost-reflective Tariffs and a Capacity-based Tariff Future

Our TSS Explanatory Notes document outlines our emerging network tariff strategy. It provides insights into the shift from an environment where network tariff strategies focused on signalling customer peak demand reduction during times of network congestion to one of providing sufficient network capacity to meet our customers' load requirements and enable integration of increased customer investment in DER (e.g. solar generation, batteries, peer to peer trading).

To reflect this change, and based on our ongoing customer engagement, new optional network tariffs are being proposed with charging on the basis of customers use of capacity rather than signalling upstream network peak demand constraints. For our residential and small business customers the suite of tariffs provides pathways to the capacity tariff, ranging from the inclining block tariff (for customers with basic meters to the demand tariff (for customers with digital meters as the stepping stone to opt-in adoption of the capacity tariff.

Having considered recent feedback, in our updated TSS we are proposing to offer new options for our business customers through enhanced load control to complement the shift to capacity tariffs in conjunction with providing dynamic network risk management options. Our three - pronged strategy of capacity tariffs, an enhanced load control offering and demand management will support improved network utilisation, lower future costs and present customers new value opportunities as the way in which customers use the electricity distribution network changes.

To ensure our approach remains relevant into the future we need to start considering the future network tariff structures that will be required to meet the evolving needs and expectations of our customers. Our TSS Explanatory Notes, which accompany our updated TSS, provides an overview of how we view the future of network tariffs. It also seeks ongoing customer feedback to help us shape our tariff strategy. Please refer to our TSS Explanatory Notes on how we propose to move towards capacity-based tariff structures in the future.

We are enthusiastic about working with retailers and market providers to leverage the tariffs in our capacity suite. We have also worked hard to learn from the very significant consultation process we have undertaken to provide options for customers to enjoy the benefits of the overall network revenue requirement reduction.

We are committed to assisting customers, where possible, in transitioning to this cost-reflective, capacity-based tariff future. We welcome feedback through the AER consultation processes on our tariff options and the transition pathways which will form part of the customer journey.

Metering Needs

Our new suite of tariffs provides customers with greater choice to manage their annual network bill. However, exercising this choice will depend on customers having digital meters in order to access the network tariffs. These meters are capable of capturing the total energy used and providing information required to measure demand and support the choice and control features of the new tariffs.

For our larger business customers, metering for tariffs of this nature has been introduced over the last several years. However, there is still much work to do in this area for residential and small business customers. Retailers have already commenced the rollout of digital meters and customers should speak with their retailers regarding their meter options.

Our Proposed Network Tariffs

We currently offer a range of network tariff options whereby tariffs primarily consist of fixed and variable components. We also offer a number of demand-based network tariffs. While some of these tariffs will be retained, we are looking to progressively migrate customers to our

proposed more cost-reflective network tariffs during this period.

Our proposed tariffs aim to reduce cross-subsidies between customer classes, minimise uneconomic investment in solar PV and emerging technologies, contribute to an increase in network utilisation, and

delay or defer network investment in augmentation, power quality and voltage management.

We present below a summary of the new network tariff options for each customer segment in our updated TSS.

New Residential Network Tariffs

Legacy Tariffs¹

| | |
|-----------------------------|---|
| Residential Basic | Daily fixed charge and inclining block energy charge per kWh with blocks increasing in 10,000 kWh per annum increments applying to all consumption |
| Residential Demand | Daily fixed charge, two demand charges (measured in kW/month demand) for day (10am to 4pm) and for evening (4pm to 9pm) and a volume charge |
| Residential Capacity | Daily fixed charge which includes payment for a selected capacity level (or included demand), two capacity charges in \$/kW/month for day and evening which apply to demand in excess of the selected capacity level, and a volume charge in \$/kWh |

New Business Network Tariffs

Legacy Tariffs¹

| | |
|---|---|
| Business Basic | Daily fixed charge, single energy rate for all consumption and monthly kW demand charge |
| Business Demand | Daily fixed charge, single energy rate for all consumption and monthly kW demand charge |
| Business Capacity | Daily fixed charge, single energy rate for all consumption and monthly kW demand charge |
| Small Business Control Load Primary Tariff | Daily fixed charge \$/day and volume charge \$/kWh |
| Business Control Load Primary Tariff | Daily fixed charge \$/day and volume charge \$/kWh |
| Business Control Load Secondary Tariff | Volume charge \$/kWh |
| Business ToU Energy Transitional Tariff | Daily fixed charge and peak and off-peak energy \$/kWh |

Connection Asset Customer (CAC) Network Tariffs

Legacy Tariffs¹

There no proposed changes to the current CAC tariffs other than removal of the excess kVAr charge

Individually Calculated Customer (ICC) Network Tariffs

Legacy Tariffs¹

There no proposed changes to the current ICC tariffs other than removal of the excess kVAr charge

1. Legacy network tariffs for all user groups are outlined on the Ergon Energy website

Customer Impact

In direct response to clear feedback received around the impact of retail electricity prices on the cost of living, our Regulatory Proposal will deliver a 9.44% real reduction in revenue from 2019-20 to 2020-21. This translates into a 4.5% real reduction in distribution network charges for our residential customers from 2019-20 to 2020-21 on their existing residential network tariff.

For the average small business customer, in order to help address the impact of price rises on business competitiveness, we will deliver a 4.5% real reduction from 2019-20 to 2020-21. Our legacy tariffs (which are the existing default tariffs) are Inclining Block Tariff Residential and Inclining Block Tariff Small Business. These reductions do not account for jurisdictional schemes which may factor into total network charges.²

An average residential customer in our region is a household that

consumes 5,000kWh of energy per annum. An average small business customer in regional Queensland is a small business that consumes around 7,500kWh of energy per annum. These reductions in the cost of using our network are in addition to recent reductions delivered during this regulatory control period.

Under the Uniform Tariff Policy the Queensland Government supports regional Queensland through Community Service Obligation (CSO) payments to ensure they pay similar prices for their electricity as customers in South East Queensland.

We continue to receive feedback on our default tariff strategy and may consider further tariff refinements based upon customer feedback. In addition, we are embarking on more granular customer impact analysis, which will be presented to customers and stakeholders after this updated TSS submission.

How to stay involved

This updated Customer Overview is an introduction to our updated TSS. Our detailed methodology for determining network tariff structures and indicative rates over the period to 2025 can be found in our updated *Tariff Structure Statement 2020-25* available at www.talkingenergy.com.au.

Our network tariff reform has been informed by an extensive engagement program. We trust we have shown we are listening and have provided you, our customers

and stakeholders, with a better understanding of how our network tariffs are structured and charged.

We encourage you to participate in the AER consultation processes as they progress consultation on and assessment of our TSS throughout 2019.

You can also provide your feedback directly to us by email through tariffs@energyq.com.au or our website at www.talkingenergy.com.au.



² Total network charges comprise distribution network charges, transmission network charges and jurisdictional schemes.



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