Ergon Energy Corporation Limited

2014-15 Feed-In Tariff

Pass Through Application

Australian Energy Regulator

26 October 2015

Ergon Energy Corporation Limited

2014-15 Feed-In Tariff

Pass Through Application

Australian Energy Regulator

26 October 2015

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited

PO Box 264

FORTITUDE VALLEY QLD 4006

Enquiries or further communications should be directed to:

Jenny Doyle

Group Manager Regulatory Affairs

Ergon Energy Corporation Limited

Email: jenny.doyle@ergon.com.au

Phone: (07) 3851 6416

Mobile: 0427 156 897

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 of, the difference between the amount of feed-in tariff payments incurred for 2014-15 and the amount forecast in Ergon Energy's Distribution Determination for 2014-15, 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 2014-15, some 13,400 new solar energy (photovoltaic) systems were connected to the network (down from the 17,700 solar-connections and the associated meters installed in 2013-14).

The spectacular growth in the volume of solar photovoltaic (PV) units has been partly attributed to the State Government's original 44 cents per kilowatt hour prescribed credit rate. The number of premises with PV units on Ergon Energy's network has seen a 5-fold increase in five years (50-fold increase in the last seven years) and as at 30 June 2015, over 110,000 customers had connected solar PV. Around 95% of these are on residential premises, representing 18.4% of Ergon Energy's entire residential customer base and 23.4% of all detached residential houses in regional Queensland. There was also a significant volume of PV array upgrades on 44c-eligible units, which notably increased their export capability through increasing their PV capacity. As a result, costs for the feed-in tariff have considerably exceeded Ergon Energy's expectations for 2014-15.

Also of note, on 1 July 2014 the prescribed credit rate of 8 cents per kilowatt hour expired and was replaced by a (retailer funded) government-mandated feed-in tariff (FIT) in regional Queensland or a market feed-in tariff in South East Queensland. Due to the customer billing cycle and other billing adjustments, Ergon Energy still made payments in relation to the 8 cents per kilowatt hour prescribed credit rate during the 2014-15 regulatory year. No amounts have been included in Ergon Energy's application for the (retailer funded) government-mandated FIT in regional Queensland or the market FIT in South East Queensland.

Table 1 below details a summary of costs incurred for the prescribed credit amount under the Solar Bonus Scheme for 2014-15 (verifiable from corporate systems). A confidential extract from Ergon Energy's accounting system is attached as supporting documentation. Refer to **Appendix A (CONFIDENTIAL).**

The prescribed credit amount payments under the Solar Bonus Scheme have been separately identified in Ergon Energy's audited 2014-15 Annual Performance Regulatory Information Notice (2014-15 AP RIN) as submitted on 31 October 2015. Specifically, the prescribed credit amount under the Solar Bonus Scheme are reported in Template 10 Network operating costs (including overheads), Table 3: Other operating costs, being the general ledger amount. The prescribed credit amount 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 prescribed credit amount 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.

Ergon Energy's forecast of the AER approved prescribed credit amount payments included in the Distribution Determination for the 2014-15 year was $4.04m ($2009-10).

The difference between the actual and forecast prescribed credit amount costs for the 2014-15 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 prescribed credit amount 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 any incorrect prescribed credit amount payments identified.

Ergon Energy proposes the amount of $125,884,026 as the eligible pass through amount[1] in respect of the feed-in tariff event for 2014-15, and accordingly this positive pass through amount[2] should be passed through to distribution network users via network charges in 2016-17.

Table 1: Positive Pass Through - Inputs

	Measure	2010-11	2011-12	2012-13	2013-14	2014-15
CPI (Mar – Mar)	Per cent	3.26	1.63	2.50	2.93	1.33
FIT forecast	$ 2009-10					4,038,379
Actual FIT Payments	$ Dec 2014					115,340,395
Less: Isolated Customers						(134,698)
Less: Incorrect payments						(5,430)
FIT Actual	$ Dec 2014					115,200,267

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 prescribed credit amount payments are considered to be made in the middle of the regulatory year ($31Dec2014), and are net of payments made to customers in Isolated communities but include payments to Tier 2 retailers.

[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

Table 2: Positive Pass through Amount - Input

	Measure	Ergon Energy
Allowed Rate of Return 2010-15	Per cent	9.72%
Allowed Rate of Return 2015-20	Per cent	6.01%

The nominal vanilla WACC values used in the calculation of the positive pass through amount are based on the AER's WACC parameters in the Final Determination for 2010-11 to 2014-15, and Final Decision for 2015-16 to 2019-20.

Table 3: Positive Pass through Amount - Calculation

	Note	Measure	2014/15
Metered output of generators subject to the scheme	a	KWh	262,956,696
FIT forecast adjusted	b	$ Jun 2015	4,530,450
FIT actuals adjusted	c	$ Jun 2015	115,962,831
Under/ over recovery	d	$ Jun 2015	111,432,380
Interest on Under / over recovery	e	$ 2016-17	14,451,646
2014-15 Positive Pass through amount	f	$ 2016-17	125,884,026

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. Prescribed credit amount AER approved forecast has been escalated by four year's CPI to current year terms ($Jun15), to arrive at the FIT forecast adjusted amount;

c. Actual payments are escalated by half a year's CPI to end of year terms ($Jun15), to arrive at the prescribed credit amount 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 (2014-15) to the middle of the regulatory year in which the pass through amount will be passed on to Ergon Energy's customers (2016-17).

f. The positive pass through amount is based on the difference, with an adjustment to account for the time value of money (interest).