

June 2020

Statement of reasons: Energex Electricity Distribution Initial Pricing Proposal

On 10 June 2020, Ergon Energy submitted to the AER its 2020/21 electricity distribution network Initial Pricing Proposal for the period 1 July 2020 to 30 June 2021. Ergon Energy provided revised submissions of its pricing proposal on 29 and 30 June 2020 to correct minor errors and compliance issues.

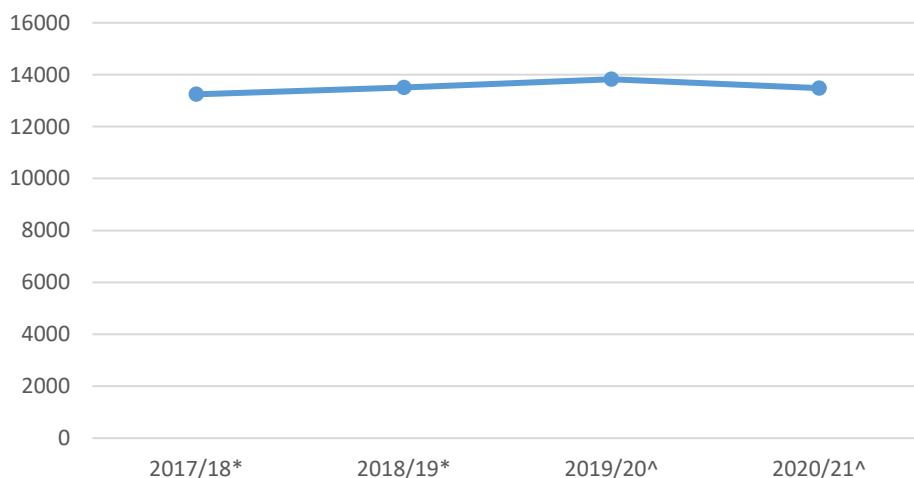
The AER has considered Ergon Energy’s revised pricing proposal for the period 1 July 2020 to 30 June 2021 submitted on 30 June 2020 in accordance with the Ergon Energy 2020–25 electricity distribution determination.

The AER is satisfied that Ergon Energy’s revised proposal complies with the relevant principles and formulae set out in section 6.18 of the National Electricity Rules. The AER is also satisfied that the proposal is in line with the Tariff Structure Statement that was set in the 2020–25 determination.

In reviewing Ergon Energy’s proposal, the AER has considered the consumption forecasts for the 2020/21 year, estimated 2019/20 revenues and actual 2018/19 revenues relative to the applicable revenue caps and permissible pass-through for each distribution, transmission, and jurisdictional scheme component. The AER also confirmed that Ergon Energy has used correct inputs, adhered to the price control formulae set in the determination, and adhered to expectations policies set out in the tariff structure statement.

Given the unprecedented conditions arising from the COVID-19 pandemic, the AER has been placing a greater level of scrutiny on the reasonableness of the forecasts embedded in these proposals. Ergon Energy’s revised proposal contained a consumption forecast for 2020/21 that was little changed from the most recent actual consumption reported for 2018/19 in the annual reporting regulatory information notices. Ergon Energy advised that no considerations had been made for the impact of COVID-19 as it was too early to assess and quantify the likely impact. The AER finds that this forecast consumption is consistent with recent historical data reported by Ergon Energy (see chart below) and therefore reasonable.

Ergon Energy (GWh per year)



*Actual consumption amounts reported in annual reporting regulatory information notices.

^Forecast consumption amounts provided in the 2019/20 and 2020/21 pricing proposals.

Having considered Ergon Energy’s proposal of 30 June 2020, the AER approves these tariffs for commencement on 1 July 2020. The approved 2020–21 distribution tariffs are set out on our website.

Background

There are three major components of a typical energy bill: wholesale costs (covering electricity being generated or gas being extracted), network charges (paying for the reliable delivery of energy via power lines or gas pipelines), and a retail margin (paying for meter reading and other services).

Energy bills also include components for Australian and state and territory government-based environmental programs such as those aimed at increasing renewable electricity generation.

The AER approves the network charge component of an energy bill, which accounts for approximately 43% of the total retail bill in Queensland.¹

Each year electricity distributors, such as Ergon Energy, are required to submit an annual pricing proposal to the AER, outlining proposed prices to take effect from the commencement of the next regulatory year.

The revenue the distributor proposes to recover must be compliant with the National Electricity Rules (NER) and the revenue determination. The distribution revenue amounts set through our revenue determination are adjusted on an annual basis for a variety of factors such as performance against incentive schemes and correcting for prior year under- or over-recoveries.

In proposing prices to recover this adjusted revenue, the structure of the tariffs set out in each annual pricing proposal must match those approved by us in Ergon Energy's Tariff Structure Statement in their revenue determination, and the proposed tariffs must also comply with certain requirements in the NER. Within these parameters, the distributor has discretion to propose prices that are consistent with its revenue cap. To demonstrate compliance with this revenue cap, the distributor is required to provide a forecast of energy consumption for the coming year.

In addition to proposing prices that are consistent with these adjusted distribution revenues, the electricity distributor also sets out separate prices for the recovery of applicable transmission and jurisdictional scheme costs. These distribution, transmission and jurisdictional scheme components are summed together to generate the proposed network prices.

We must approve the proposals if we are satisfied they comply with NER requirements (including complying with any applicable distribution determination) and if all forecasts associated with the proposals are reasonable. Where a proposal does not meet these requirements, we seek amendments to correct the deficiencies.

Further information on estimated bill impacts

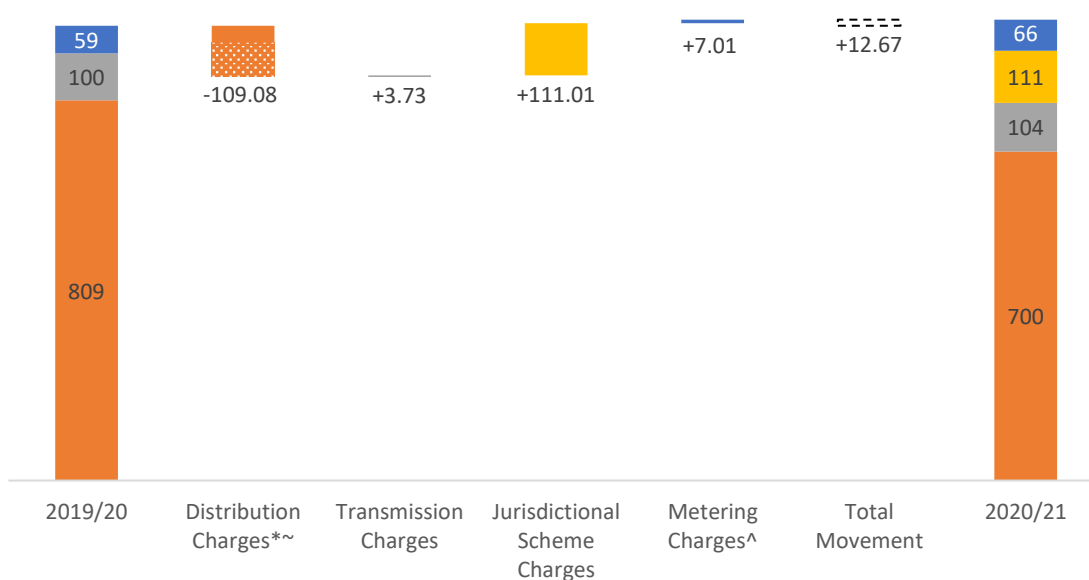
As a result of our decision, the network component of the typical annual bill for Ergon Energy customers is \$13 higher for residential tariffs and \$45 lower for small business tariffs. These estimated bill impacts include both network tariffs and metering charges.

The charts below depict the estimated bill impacts arising from movements in the various components of network tariffs and metering charges.

¹ AER, *State of Energy Market 2019 update*, Figure 1.2, December 2019.
[Australian Energy Regulator | Email Media@aer.gov.au](mailto:Media@aer.gov.au) | [Twitter @aer.gov.au](https://twitter.com/aer.gov.au)

The distribution components of network tariffs are decreasing, primarily as a result of the AER’s 2020–25 electricity distribution determination. The orange box labelled ‘distribution charges’ reflects the distribution component of the approved network tariffs. The white dots in reflect that we estimated a smaller decline in this component as part of our revenue determination. As set out above, there are a number of factors that can drive differences between the estimates for this component provided in our revenue determination and those arising from the annual pricing process; these include revenue adjustments not set as part of Ergon Energy’s revenue determination and rebalancing or reweighting of tariffs where this is compliant the relevant tariff structure statement.

Ergon Energy - Residential (\$)

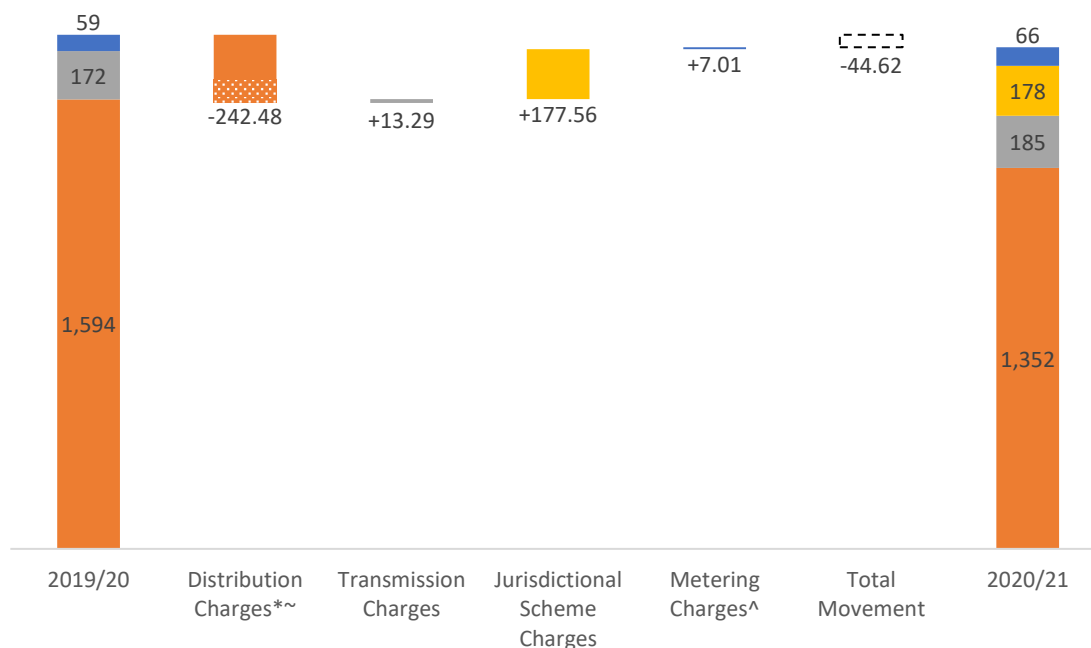


*Distribution charges reflect the change in the distribution component in the approved network tariffs provided in the 2020/21 pricing proposal. The dotted area represents that the change estimated as a result of the AER’s 2020–25 regulatory determination has been exceeded in the approved tariffs due to adjustments made for factors such as incentive scheme payments, consumption movements and previous year under/over-recoveries.

~Energex distribution charge movements were used to estimate bill impacts for Ergon Energy in relation to the revenue determination due to Ergon Energy’s retail tariffs being regulated and using Energex retail tariffs as a reference point.

^Reflects the typical charge for a customer with a Type 5 or 6 meter, as set in the AER’s 2020–25 regulatory determination.

Ergon Energy - Small Business (\$)



*Distribution charges reflect the change in the distribution component in the approved network tariffs provided in the 2020/21 pricing proposal. The dotted area represents that the change estimated as a result of the AER's 2020–25 regulatory determination has been exceeded in the approved tariffs due to adjustments made for factors such as incentive scheme payments, consumption movements and previous year under/over-recoveries.

~Energex distribution charge movements were used to estimate bill impacts for Ergon Energy in relation to the revenue determination due to Ergon Energy's retail tariffs being regulated and using Energex retail tariffs as a reference point.

^Reflects the typical charge for a customer with a Type 5 or 6 meter, as set in the AER's 2020–25 regulatory determination.

The transmission components of network tariffs are little changed. The jurisdictional scheme components of network tariffs are increasing. This reflects that the Queensland Government's Solar Bonus Scheme subsidy of jurisdictional scheme costs was expected to end on 30 June 2020. The increases in network charges resulting from this change to the jurisdictional scheme component offset the reductions to the distribution component, leading to a small increase in overall network residential tariffs, and moderate decrease in small business tariffs.

The Queensland Competition Authority sets regulated prices for regional Queensland retail customers on the Ergon Energy network. Price impacts outlined in this document will typically not be passed on directly to these small retail customers, as the regulated prices for small customers generally include a pass through of Energex's network costs that apply to South-East Queensland.²

Metering charges are also little changed, consistent with the metering prices set in our revenue determination for Ergon Energy.

² More information can be found in the Queensland Competition Authority's recent price determination at: <https://www.qca.org.au/project/customers/electricity-prices/regulated-electricity-prices-for-regional-qld-2020-21/>.
Australian Energy Regulator | Email Media@aer.gov.au | Twitter [@aer.gov.au](https://twitter.com/aer.gov.au)