

May 2022

## Statement of reasons: Ergon Energy’s Annual Pricing Proposal

The AER approves Ergon Energy’s 2022–23 pricing proposal and the tariffs contained within for commencement on 1 July 2022. Ergon Energy’s approved tariffs are set out on [our website](#).

### Estimated network cost movements

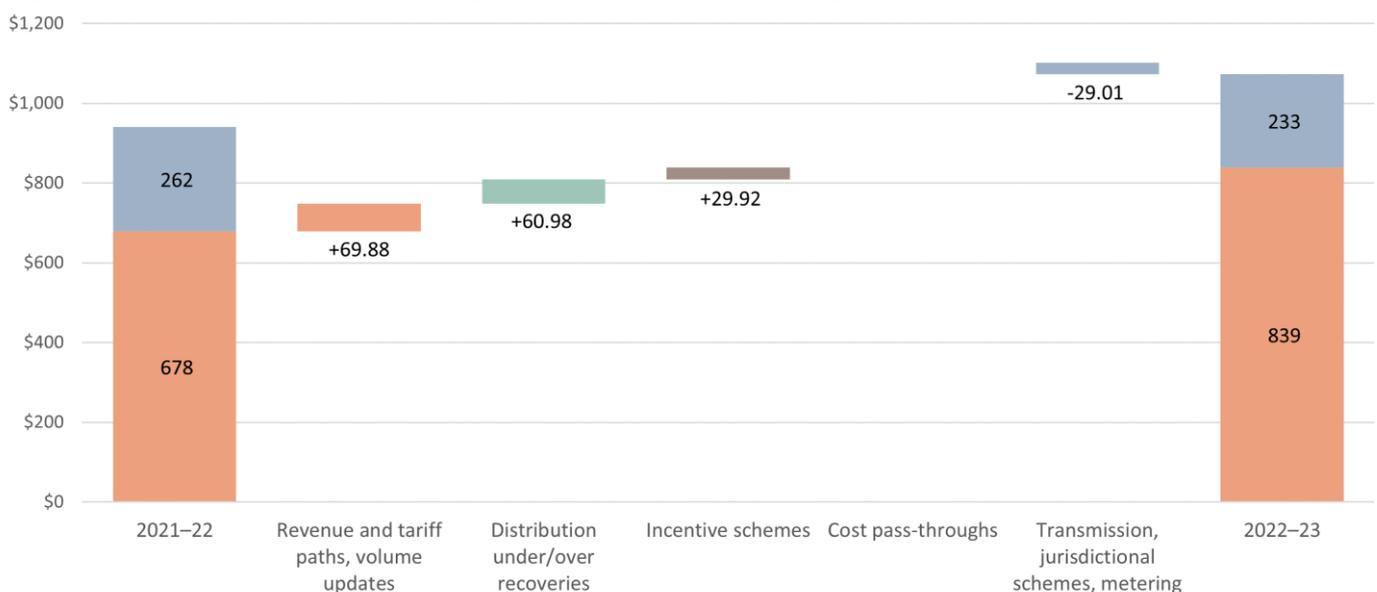
The Queensland Competition Authority sets regulated prices for regional Queensland retail customers on the Ergon Energy network. Price impacts outlined in this document will typically not be passed on directly to these small retail customers.

We estimate that, based on our decision, the network component of the typical bill for Ergon Energy’s customers to be \$131.77 higher for households and \$117.65 higher for small businesses in 2022–23 compared to 2021–22.

The network cost movements reflect an increase in revenue that Ergon Energy is allowed to recover in 2022–23, as well as a forecast decrease in consumption. The higher cost movement for residential customers relative to small business reflects the forecast decrease in residential consumption in 2022–23, as well as price paths set in the 2020–25 tariff structure statement.

The increase in revenue is due to the recovery of previously under-recovered revenues, higher reward payments under incentive schemes, and higher than forecast inflation. This is partly offset by the revenue path set in the 2020–25 determination, and reductions in transmission and jurisdictional scheme costs passed through to customers. We provide more detailed information on Ergon Energy’s consumption forecasts below.

**Figure 1 Residential: Average annual network charge**



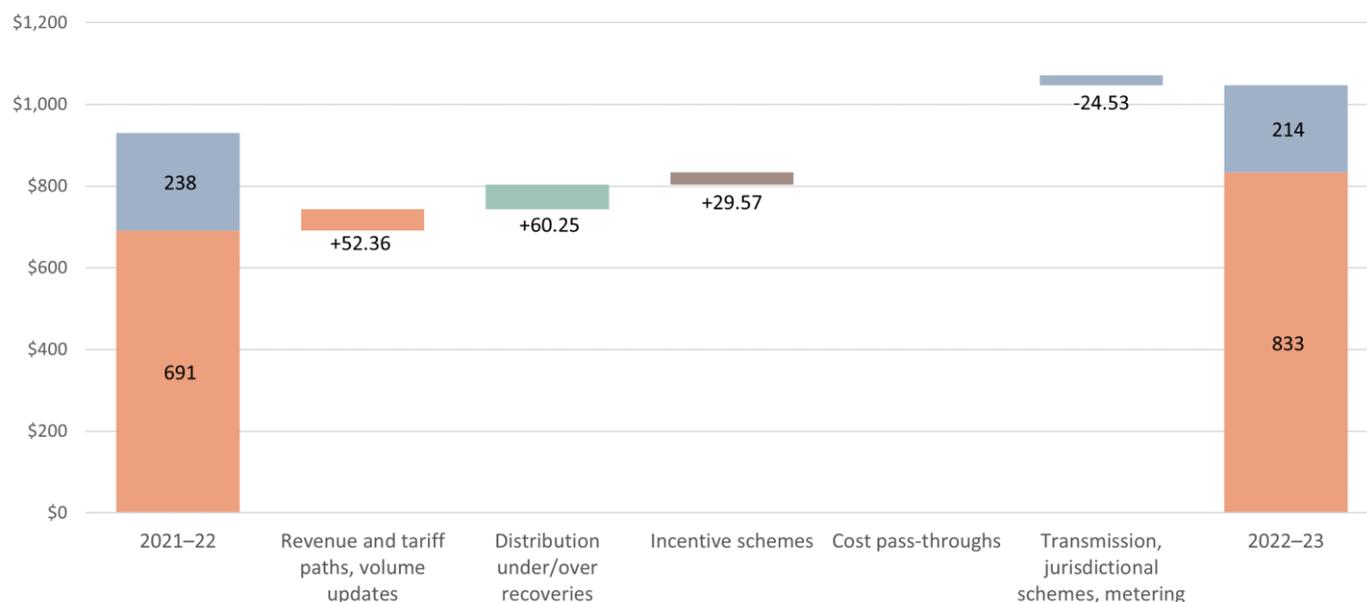
Source: AER Analysis; Ergon Energy’s 2022–23 pricing proposal.

Note: Our analysis assumes electricity usage of 5,169kWh for the ‘East SAC <100MWhpa Residential IBT’ tariff. This is based on actual data for residential electricity usage and customer numbers reported in Ergon Energy’s 2022–23 pricing proposal.

‘Revenue and tariff paths, volume updates’ includes all other movements in the distribution network charges not shown above.

‘Transmission, jurisdictional schemes, metering’ includes all movements in the non-distribution network charges.

**Figure 2 Small business: Average annual network charge**



Source: AER Analysis; Ergon Energy's 2022-23 pricing proposal.

Note: Our analysis assumes electricity usage of 4,502kWh for the 'East SAC <100MWhpa Residential IBT' tariff. This is based on actual data for small business electricity usage and customer numbers reported in Ergon Energy's 2022-23 pricing proposal. 'Revenue and tariff paths, volume updates' includes all other movements in the distribution network charges not shown above. 'Transmission, jurisdictional schemes, metering' includes all movements in the non-distribution network charges.

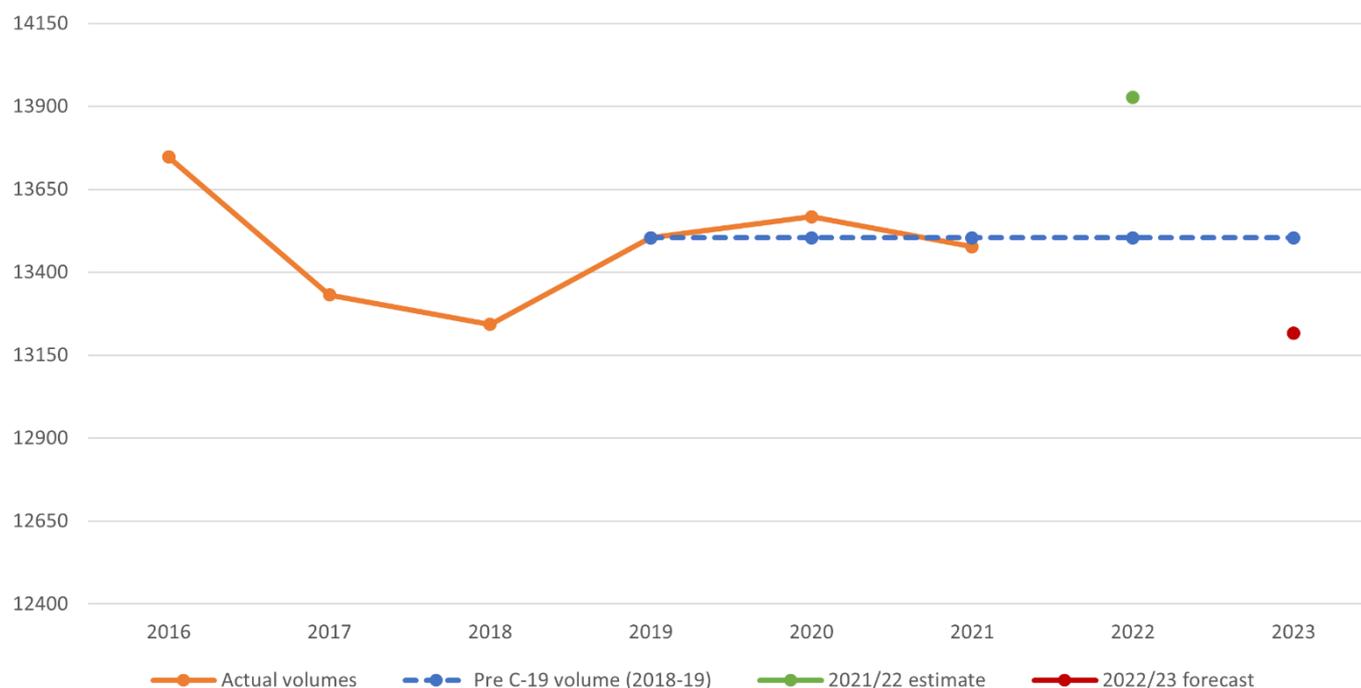
Actual bill impacts for individual customers will vary from our estimates as customers may be on different tariffs or consume different amounts of energy from our assumptions. Our analysis is based on flat rate tariffs, which are the most common tariffs for residential and small business customers. Where overall price movements are small, some tariffs may increase while others decrease.

### Consumption forecasts

Electricity distributors operate under a revenue cap which sets the annual allowed revenue they can recover to deliver safe and reliable electricity within their networks. Prices are determined based on forecast consumption for that year, allowing distributors to recover their allowed revenue. If distributors forecast lower consumption, then other things being equal, prices are expected to be higher to allow them to recover the revenue allowed.

Our assessment of the distributors' consumption forecasts includes analysis of historical consumption trends and the reasons put forward for any departure from them. For 2022-23, a key factor of our assessment is the impact that Australia's response to COVID-19 has had and is continuing to have on energy consumption.

**Figure 3 Energy volumes (GWh)**



Source: AER Analysis; RIN data; Ergon Energy’s 2022–23 pricing proposal.

Ergon Energy has forecast decreased energy consumption for 2022–23. The decrease is largely due to increased uptake in solar PV installations and revised economic predictions for Queensland.

We consider Ergon Energy’s 2022–23 consumption forecasts are reasonable based on our analysis and the supporting information provided by Ergon Energy.

Ergon Energy has estimated energy consumption for 2021–22 that is higher than forecast. Ergon Energy noted the increase was driven by higher residential energy consumption due to the working from home arrangements during COVID-19 lockdowns in Queensland.

*Under/over recovered revenues*

Although we set the revenues the distributors can recover, the revenue they ultimately receive over an individual year is determined by the amount of actual energy consumed in that year.

- Actual energy consumption can fluctuate from forecast consumption because of a number of factors such as weather, increased uptake of solar PV, or, in recent times, in response to a pandemic. These fluctuations in energy consumption result in distributors recovering more or less than the allowable revenue we set.
- Variations also occur for the transmission costs and jurisdictional scheme amounts a distributor passes through to customers where actual payments differ to what was forecast.

To ‘true-up’ these variations in revenue, adjustments are made to allowable revenues for the upcoming financial year to ensure that over time, a distributor only recovers the revenue it is allowed.