In short, it’s because the way our customers are using the network is changing, and the way we charge has not kept up – in fact, this has partially contributed to electricity prices rising.

Ergon Energy builds new infrastructure largely to keep up with demand during peak times in our ‘summer months’ – during the day to early evening for business customers and from mid-afternoon into the evening for residential customers.

We want to be able to say ‘we get you’ and give our customers the opportunity to save. By looking at what drives our costs and by aligning our pricing signals, we’re now able to offer real savings when the network is not being used to its full capacity. Off setting these reductions are higher charges when the level of demand for electricity across the network is likely to drive future capital investment.

Recent modelling has shown that without our tariff reform customers in regional Queensland could be paying up to a billion dollars more than they need to in the coming decade. This is a direct result of the cross subsidies that are being created by our older tariffs through the take up of technologies that do not contribute significantly to reducing our cost to serve via the network. This cost of inaction could, in fact, be even greater, as our current pricing structures also don’t incentivise other smarter ‘technology’ investments that customers could make, which would maximise the use of the network and help us reduce costs overall.

**Ergon Energy is changing the way we charge for the use of our distribution network to help ensure we can continue to meet everyone’s needs into the future for the best possible price.**

We embarked on our network tariff reform journey over three years ago very much aware of the need to deliver fairer and more equitable pricing signals. This process is ongoing, with the full details provided in our Tariff Structure Statement 2017-18 to 2019-20.

**WHY DO WE NEED NETWORK TARIFF REFORM?**

In short, it’s because the way our customers are using the network is changing, and the way we charge has not kept up – in fact, this has partially contributed to electricity prices rising.

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**WHAT MAKES UP THE RETAIL PRICE OF ELECTRICITY?**

**Network tariffs**
Distribution and transmission charges for the use of the network and Jurisdictional Schemes charges

**Other costs**
Generation, government renewable energy schemes and retailing services

**Electricity bill**
The majority of customers are charged through tariffs determined by the Queensland Competition Authority

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**STANDARD ASSET CUSTOMERS - SMALL**

< 100MWh a year
Small to medium businesses and residential customers
For our small to medium business and residential customers, who use less than 100MWh of electricity each year, we have a range of network tariff options.

Inclining Block Tariffs
The main tariffs that are currently being applied to customers in this group are the Inclining Block Tariffs (business and residential). While not reflected in the regulated retail tariffs that Ergon Energy Retail offers customers, Ergon Energy Network will continue to use these tariffs throughout the 2017 to 2020 period.

These tariffs have a three step inclining block structure, with the rate increasing with each step up in a customer’s consumption level above defined thresholds. This tariff was introduced in 2014 as a transitional step to better reflect network costs (compared to flat energy based tariffs) without requiring metering changes at the premises.

Time-of-use tariffs
Historically we have charged customers in this user group for the total amount of energy used in the billing period (usually three months). Moving forward, to be more cost reflective the tariffs for this group of customers need to have a bigger focus on the amount of electricity used at specific times of the day, during the busiest or peak times for the network, rather than how much energy is used over the billing period. This reflects the cost associated with placing additional demand on the network, especially in the summer months.

The first step in this direction for our Standard Asset Customers – Small (SAC Small) was made in July 2014 with the introduction of voluntary energy-based, seasonal time-of-use network tariff structures. To help move further along this journey, in July 2015, we gave customers the opportunity to access new voluntary tariffs that reward customers for using demand outside of peak times.

The structure and the time-of-use elements of these new tariffs are reflected in the tariff choices, Tariff 12, 22A, 14 and 24, available in the regulated retail prices set by the Queensland Competition Authority (QCA).

Seasonal Time-of-Use Energy
For the SAC Small Seasonal Time-of-Use Energy tariffs there is a fixed charge per day and an energy (volume) charge, which includes seasonal, day of week and time-of-day dimensions. The rate for the energy charge for the summer peak period is higher than the energy charge for the off-peak time periods. The peak and off-peak time periods and the energy charges for each time period are also different between residential and business customers.

WHAT NETWORK TARIFF OPTIONS ARE AVAILABLE?

For the SAC Small Seasonal Time-of-Use Demand tariffs there are demand charges that have seasonal and time-of-day dimensions and any time energy (volume) charges. There is no fixed charge. The tariffs are explained in detail on the next page.

Our Seasonal Time-of-Use Demand tariffs are our preferred options for the future, due to their longer term benefits. Since being introduced we have been listening to stakeholders, and working hard to refine these tariffs.

This has seen us simplify the way the tariffs are calculated for 2016-17. The demand mechanism in the tariffs will now be the same for both the summer and non-summer months. The demand charges will now be calculated throughout the year based on an average of the demand the customer uses in the daily demand window.

Averaging the demand over the window is a more moderated demand charging mechanism than using the single highest recorded half hourly maximum demand in the period. It minimises the bill impact of any abnormally high peak demand days and also improves the likelihood of the period measured coinciding with the network wide peak (peak demand drives our costs, so any opportunity to reduce this demand will benefit all customers). For these tariffs the rates for the demand charges drop significantly from the summer months to the non-summer months.

Our reforms are also continuing to gradually increase the cost reflectivity of the summer charge.
Let’s look at how the demand components of the tariff are calculated.

The monthly demand charges, for both summer and non-summer, are based on an average of the demand the customer places on the network in the daily demand window.

For business customers, the daily demand window from 10.00am to 8.00pm on weekdays. For residential customers, the window is from 3.00pm to 9.30pm every day of the week.

We look at the highest four demand days in the month, determined by the average demand recorded in these daily demand windows. We then apply the monthly demand rate to the average of these top four demand days.

In the non-summer months the rate applied to the demand charge is much lower. A 3kW floor also applies (non-summer months only) - meaning the customer pays for 3kW of demand or the average of their top four average demand days in the month, whichever is the greater.

There are no distribution fixed charges applying throughout the year, only the floor in the non-summer months.

A flat energy charge is applied all year round. The lower rates set in this tariff for off-peak demand and energy means real savings for customers 90% of the time, when the network is not being used to its full capacity.

The metering and network billing of this tariff requires smart, remote-read, type-four interval meters. These meters are a prerequisite for eligibility for this tariff.

This tariff can work with the control load tariffs, as they can reduce the demand charge and deliver more savings.

AN EXAMPLE

Ergon Energy’s demand charge looks at the daily demand window. In the adjacent residential customer example, this is represented by the coloured bars. However, instead of looking at the highest demand in the window we look at the average demand in the window. Averaging minimises the impact of an abnormal half-hour period and provides customers an ongoing incentive to reduce demand in the period most likely to trigger future network investment. If this customer had exactly the same energy profile each day (as we take an average of the top four demand days each month), we would apply the peak demand rates to the average demand of 1.4kW. In non-summer months as 1.4kW is below the minimum 3kW demand charge, the off-peak demand charge would be multiplied by 3kW.

SUMMER PEAK DEMAND CHARGE ($/kW/mth)

**Demand charges drop in the non-summer months**

**NON-SUMMER OFF-PEAK DEMAND CHARGE ($/kW/mth)**

Minimum 3kW demand charge

**ANY TIME ENERGY ($/kWh)**

Total energy used each month

**CHARGE ONLY FOR DAILY DEMAND WINDOW**

Business: 10.00am-8.00pm weekdays

Residential: 3.00pm-9.30pm each day

To calculate the monthly charge we use the highest four average demands recorded in these daily windows.

THE TARIFF COMPONENTS

There are three charging components: a peak demand charge in the summer months; an off-peak demand charge in the non-summer months; and an any time energy (volume) charge throughout the year.
Controlled tariffs
Reforms are also being made to our secondary controlled load tariffs. These tariffs allow Ergon Energy to directly curtail supply to designated circuits at a customer’s premises in return for a lower tariff than the ones applying to uncontrolled load. They are ideal for connecting to hot water systems and other load that can be switched off at different times during the day to help us manage the load on the network without too much inconvenience to the customer.

We currently have two of these secondary tariffs. Our Volume Night Controlled tariff, which supports the Notified Retail Tariff 31 Night rate (super economy), and our Volume Controlled tariff, which supports the Notified Retail Tariff 33 Controlled supply (economy). The first provides the greatest savings with supply made available for at least 8 hours a day, for the second this is extended to 18 hours a day. Our reforms are rebalancing the rates for these tariffs to better reflect our improved understanding of the cost associated with additional demand on the network during peak periods.

This graph shows the network charges, passed on to a household’s retailer through the Inclining Block Tariff, dropping in 2015-16 and then remaining stable overall for the last four years of the regulatory control period out to 2020.

Each indicative price stack shows in nominal dollars the different charges that are allocated to an average electricity bill for a residential customer on a market retail contract. Note this indicative price path does not exactly replicate our revenue path due to assumptions in our pricing model for this tariff class.

Please note: the majority of residential customers in regional Queensland benefit from the regulated retail tariffs, which are determined by the QCA. This means the actual retail bill is subsidised in line with the Queensland Government’s Uniform Tariff Policy.

The historical INDICATIVE BILL in the graph shows the retail bill for a typical customer using 4,091kWh a year on these notified prices. For further information on how regulated retail tariffs are determined go to www.dews.qld.gov.au/energy-water-home/electricity/prices.
HOW ARE THE REFORMS IMPACTING PRICES?

Our Pricing Proposal provides our rates for 2016-17 and our Tariff Structure Statement provides indicative network rates out to 2020. Please note, in addition to the distribution charges, discussed in this document, we also pass on Transmission Use of System charges and Jurisdictional Scheme charges.

While our rates are not reflected directly in the regulated retail prices for SAC Small customers, electricity prices going forward are expected to be relatively stable. The money Ergon Energy collects for the use of the network (under our revenue cap) has fallen, in line with our efficiency drive and a range of other factors. This has provided an ideal environment to manage the impact of our tariff reform agenda on individual customers.

Currently, customers must apply through their retailer to access the energy or demand based seasonal time-of-use tariffs. Individuals may experience higher or lower bill outcomes under these tariffs compared with retail Tariff 11 or 20. This is dependent on the usage profile of the customer. The more electricity that is able to be used proportionally outside the peak summer period, the better these tariffs will be for an individual.

To assist in the transition to the new demand-based tariffs we are offering, we are talking to our stakeholders, and planning to enlist customers from different representative segments to participate in a pilot in late 2016. The pilot will aim to help everyone – ourselves, our customers’ retailers, consumer representatives, and most importantly customers themselves – to better understand the opportunities in the tariffs.

For SAC Small customers that have chosen to enter the competitive market (no longer with Ergon Energy Retail), their retailer will need to advise if they are already or are planning to make the tariffs discussed available and the potential benefits for the customer.

MORE INFORMATION

How are network tariffs different from retail electricity tariffs?

Network tariffs are the way Ergon Energy Network (Ergon Energy Corporation Limited) charges for the use of the distribution and transmission network. Our network charges are typically included in a customer’s retail electricity bill. They make up around half of the retail price of electricity.

In addition to network charges, the retail electricity bill also includes costs for electricity generation, a range of government schemes and electricity retailing services.

How does this review link with the other electricity price setting processes?

In reviewing the regulated retail tariffs the OCA considers Ergon Energy’s network tariffs and our reform program. Ergon Energy Retail offers these regulated retail tariffs.

Our network tariff reforms do not impact the overall revenue we collect for the use of our network. The amount of revenue Ergon Energy Network is allowed to collect has been set under a revenue cap by the Australian Energy Regulator. For more information, please visit www.ergon.com.au/futureinvestment.

Does Ergon Energy have different network tariffs for different customers?

Yes. A separate guide has been developed for customers in each of the following user groups:

- Individually Calculated Customers (ICC) (>40GWh p.a.) - this group includes the very large coal mining and rail operations and a number of very large pumping facilities.
- Connection Asset Customers (CAC) (>4GWh p.a.) - these customers represent a broad mix of activities, including industrial sites, large mining, manufacturing and farming operations, sugar mills, large shopping centres, hospitals, universities, correctional centres, defence force bases, and large pumping stations.
- Standard Asset Customers – Large (SAC Large) (>100MWh p.a.) - this group includes large commercial, industrial and agricultural operators.
- Standard Asset Customers – Small (SAC Small) (<100MWh p.a.) - this class describes the majority of Ergon Energy’s customers, including small to medium businesses and residential customers. The changes for this class are discussed in this guide.

How can I find out more?

Please visit www.ergon.com.au/futurenetworktariffs