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.

For some time now we have been talking about a major shift in the way our customers use our electricity network.

We’ve worked hard to ensure our network can meet the changing needs of our customers, but the way we price electricity has not kept pace with these changes, and this has partially contributed to electricity prices rising. We want to ensure we can continue to meet everyone’s needs into the future, for the best possible price. But this can’t happen without embracing some change.

By looking at what drives our costs and aligning this to our pricing signals, we’re now able to offer the option for customers to access tariffs that provide real savings when the network is not being used to its full capacity. Offsetting these reductions are higher charges when the level of demand for electricity across the network is likely to drive future capital investment.

As well as seeking tariff structures that offer value to customers and Ergon Energy, there is a regulatory requirement to implement more cost reflective tariffs.

For our Connection Asset Customers (CAC), who use between 4GWh and 40GWh (gigawatt hours) of electricity per year, this is seeing us continue along the tariff reform pathway proposed in 2014. These requirements are detailed in our Tariff Structure Statement, published in November 2015, which covers our tariffs from 2017 out to 2020. This document provides accessible and comprehensive information on our network tariffs and how they are expected to change in the future.
Customers in this group require an 'extra-large' level of network capacity (typically more than 1,500kVA) and in many cases a dedicated connection – they include ports, industrial sites, large mining, manufacturing and farming operations, sugar mills, large shopping centres, hospitals, universities, correctional centres, defence force bases, and large pumping stations.

**EARLIER REFORMS**

Prior to July 2015, each customer in this group was priced individually to take into account their relative share of asset use and the assets built for their specific connection. In response to feedback over the need for more simplicity and transparency, we introduced changes in 2015-16 to reduce the number of tariffs and individual calculations. This resulted in the introduction of standardised tariffs that include a connection unit charge. Customers affected have been advised of the relevant number of connection units associated with their tariff.

In July 2015 we also moved to kVA (kilovolt ampere) charges for the CAC user group. A site’s power factor (the ratio of real power (kilowatts or kW) to total power (kVA) is used to convert authorised demand to kVA. kVA-based tariffs are a more cost effective measure of a customer’s total load on the local network compared to kW (kilowatts).

**ANY TIME DEMAND TARIFFS**

The CAC group has access to four any time demand tariffs with a number of charging components.

The actual demand charge is based on the highest half-hour kVA demand recorded in the monthly billing period. The meter records the average demand over each 30 minute period.

The capacity charge calculation uses the greater of authorised demand or the monthly actual maximum demand.

The connection unit charge is multiplied by the customer’s individual number of connection units. For customers that connected to the network on or after 1 July 2010, no connection unit charges will apply.

A fixed charge and a flat energy (volume) charge apply throughout the year.

**SEASONAL TIME-OF-USE DEMAND TARIFF**

In July 2015 we introduced a Seasonal Time-of-Use Demand tariff for this group. Modifications have been made in a number of areas for 2016–17.

In summary, the summer peak demand charge is no longer based on the greater of the authorised demand and monthly maximum half hour demand during the peak period, and the capacity charge is no longer charged on the greater of a monthly floor and the monthly maximum half hour demand during the non-summer months.

These changes will make the tariff more attractive for customers and provide a greater incentive for them to respond to the pricing signal in the summer peak demand window.

Like our other Seasonal Time-of-Use Demand tariffs, this voluntary tariff structure includes a peak demand charge, an off-peak energy charge, and a capacity charge (off-peak demand).

The peak demand charge is based on the customer’s highest half hour kVA demand recorded during the peak demand window in each summer month.

The capacity charge, in 2016–17, will be based on the greater of the customer’s authorised demand and the actual monthly half hour maximum demand. The capacity charge will apply for all 12 months of the year. Over the summer months, it excludes demand occurring during the peak demand window of 10.00 am to 8.00 pm on summer weekdays.

The off-peak energy charge is applied to all energy consumed in non-summer months.

In addition, a connection unit charge will apply.

**THE ANY TIME DEMAND TARIFF COMPONENTS**

- **Actual demand charge ($/kVA/mth)**
  Applied to the actual kVA monthly maximum demand
- **Capacity charge ($/kVA/mth)**
  Applied to the greater of the monthly actual demand or authorised demand
- **Fixed charge ($/day)**
  All year, as applicable
- **Connection unit charge ($/day per connection unit)**
  All year, as applicable
- **Any time energy charge ($/kWh)**
  Total energy consumed

There are five charging components for CAC any time demand tariffs: an actual demand charge, a capacity charge, a fixed charge, a connection unit charge and an any time energy charge.
There are four charging components for the CAC STOUD: a peak demand charge in summer months, a capacity charge, an off-peak energy charge in non-summer months and a connection unit charge.

**How Will These Changes Impact Prices?**

The Seasonal Time-of-Use Demand tariff is entirely voluntary. Individual customers may experience higher or lower bill outcomes under these tariffs compared with the any time demand tariff. This is dependent on the usage profile of the customer. The more a customer can reduce their peak demand in summer the more likely that transfer to this tariff will offer benefits. For customers in the competitive market, their chosen retailer will need to advise if they are planning to make the tariffs available and the potential benefits for the customer.

**Future Rates**

Our Pricing Proposal provides our rates for 2016-17 and our Tariff Structure Statement provides indicative network rates out to 2020. The revenue Ergon Energy is collecting overall for the use of the network (under our revenue cap) is generally falling out to 2020, in line with our efficiency drive and a range of other factors. In moving gradually to undertake the reforms, we have made every effort to minimise the annual cost impact of the changes made. In the short term, Ergon Energy’s total revenue from customer bills neither increases or decreases as a result of tariff changes. 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.
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.

In addition to the 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 QCA 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 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 of customers 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. The changes for this class are discussed in this guide.

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 group describes the majority of Ergon Energy’s customers, including small to medium businesses and residential customers.

How can I find out more?

For more on improving a premises’ power factor through energy management, please go to www.ergon.com.au/network/manage-your-energy

For more on our network tariff reforms, please visit www.ergon.com.au/futurenetworktariffs

PROPOSED CHANGES IN 2017-18

We now plan to introduce an excess reactive power or kVAr (kilovolt amperes reactive) charges in July 2017. This charge is intended to reinforce the price signal introduced by the kVA tariff in 2015-16, which encourages customers to improve their power factor and reduce their usage of network capacity. For more information on these charges refer to the online document, Understanding kVA and Excess kVAr Charges for Major Customers.

The impact on an individual business on the proposed move to excess reactive power charges may depend on whether the business’ premises is on the regulated retail prices determined by the Queensland Competition Authority (QCA) or on a market contract.

For businesses on the regulated retail prices, the impact from our earlier move to kVA charges and the proposed move to excess kVAr charges will depend on how the QCA set the notified prices in 2017-18. To date these charges have not been passed on through the QCA’s annual price determinations.

For the latter, the retailer or the contract the customer is on will determine if, how and when the changes will be passed through. The change could result in the allocation of a greater share of cost to a customer (generally to those customers with a lower power factor than occurs under the status quo).

In response to the proposed move to excess reactive power charges, customers have the opportunity to consider the power factor associated with their electrical equipment in advance of the new charging arrangements being introduced. There may be the opportunity to make changes now and ultimately savings. Ergon Energy can provide general advice and guidance to help customers take corrective action based on their circumstances.