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?

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.

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.

These requirements are detailed in our Tariff Structure Statement, published in November 2015, which covers our tariffs from 2017 out to 2020.
The tariffs offered to our ICCs are comprised of a fixed charge, a capacity charge, an actual demand charge, an excess reactive power charge and a volume charge. They are calculated on an individual basis to reflect the specific supply requirements of the site's load requirements.

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 excess reactive power charge, introduced in 2015, encourages customers to improve their power factor and reduce their peak network capacity requirements. This charge is calculated monthly based on the power factor recorded at the time of each customer's individual monthly kVA peak. To the extent the actual kVAr exceeds the customer's permissible kVAr quantity (determined by the customer's authorised demand and the National Electricity Rules compliant power factor), excess kVAr charges are applied.

The capacity charge is applied each month to the customer's individual kVA authorised demand or the actual maximum demand, which ever is the higher. A fixed charge and a flat energy (volume) charge apply throughout the year.

### WHAT TARIFFS ARE AVAILABLE?

The tariffs offered to our ICCs are comprised of a fixed charge, a capacity charge, an actual demand charge, an excess reactive power charge and a volume charge. They are calculated on an individual basis to reflect the specific supply requirements of the site's load requirements.

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### THE TARIFF COMPONENTS

<table>
<thead>
<tr>
<th>Tariff Component</th>
<th>Description</th>
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<tbody>
<tr>
<td>Actual demand charge ($/kVA/mth)</td>
<td>Applied to the actual kVA monthly maximum demand</td>
</tr>
<tr>
<td>Excess reactive power charge ($/excess kVAr/mth)</td>
<td>Applied against the kVAr used by a customer that exceeds the customer's permissible quantity</td>
</tr>
<tr>
<td>Capacity charge ($/kVA of Authorised Demand/mth)</td>
<td>Applied to the higher of customer-specific kVA authorised demand or actual maximum demand.</td>
</tr>
<tr>
<td>Fixed charge ($/day)</td>
<td>All year, as applicable</td>
</tr>
<tr>
<td>Any time energy charge ($/kWh)</td>
<td>Total energy consumed</td>
</tr>
</tbody>
</table>

There are five charging components for ICC tariffs: an actual demand charge, an excess reactive power charge, a capacity charge, a fixed charge and an any time energy charge.

### POWER FACTOR AND EXCESS kVAr DEMAND

A premises' power factor is important because distribution systems must be designed to supply the actual power required. A lower power factor means the actual power required will be higher. A non compliant power factor at peak will result in kVAr demand in excess of the permissible kVAr and excess kVAr charges being applied.

To avoid inadvertent impacts on measurement of kVA and kVAr quantity where a customer has both load and generation, for the purposes of load side network charging, the lagging kVAr is set to zero in any interval where the generator is enabling energy to be exported to the network.

For more information, refer to our Understanding kVA and kVAr Charges for Major Customers information document online.
As the reforms to date have brought ICC tariffs in line with the principles of cost reflective pricing, we have not identified further reforms for 2016-17. We do, however, see an opportunity in the future to improve the alignment between the signal a customer receives for exceeding their authorised demand and our Long Run Marginal Cost. This will require further customer consultation to determine the appropriate timing for any changes.

The impact on an individual business of the changes already in place or any rate changes will 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 the latter, the retailer or the contract the customer is on will determine if, how and when changes or rates will be passed through.

To minimise any excess kVAr charges customers should consider the power factor associated with the electrical equipment currently used. There may be the opportunity to make changes and ultimately savings. Ergon Energy can provide general advice and guidance to help customers take corrective action based on their circumstances.

For businesses on the regulated retail prices, there remains no impact from the move to kVA and excess kVAr charges as the change has not been passed on through the QCA’s determination to date.

Our Pricing Proposal provides our rates for 2016-17 and our Tariff Structure Statement provides indicative network rates out to 2020.

We note the caveat that ICC prices are influenced by specific individual customer connection circumstances and individual pricing outcomes can vary significantly from the average due to changes in the local network and customer actions.

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.

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.

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.

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.

Standard Asset Customers – Large (SAC Large) (>100MWh p.a.) – this group includes commercial, industrial and agricultural (such as irrigators) 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