2024-25 Pricing Proposal Statement of Compliance

28 March 2024

Part of Energy Queensland

Contents

1 INTRODUCTION

This statement of compliance as well as the standardised SCS and ACS pricing models form Ergon Energy Corporation Limited's (Ergon Energy Network's) pricing proposal for 2024-25. This is an annual pricing proposal that has been submitted at least 3 months before the commencement of the regulatory year.

Below is a full list of documents that form part of this proposal:

- Attachment A – 2024-25 Statement of compliance (this document) - public
- Attachment B – 2024-25 SCS pricing model - public
- Attachment C – 2024-25 SCS pricing model - confidential
- Attachment D – 2024-25 ACS pricing model – public
- Attachment E – 2024-25 Pricing Proposal Overview – public
- Attachment F - Supporting information – public
- Attachment G - Supporting information – confidential
- Attachment H – Confidentiality template – public
- Attachment I – 2024-25 Network Price List - public

2 DEMAND FORECASTS

Ergon Energy Network has provided quantity forecasts for standard control services in the 'Qty forecasts' sheet of the SCS pricing model.

In comparison to the previous pricing proposal's forecast, the energy consumption volumes and customer numbers for the current regulatory year are not materially different. The variance in quantities from the previous year for the entire network as well as for residential and small business customers, is outlined and explained in the table below.

Table 1: Forecast and estimate energy consumption and customer numbers[1]

Quantity	Forecast2023-24	Estimate 2023-24	Forecast 2024-25	Variance and explanation of change
Energy total (GWh)	**13,804**	**13,676**	**13,603**	At the total network level energy consumption in 2023-24 is estimated to be higher than forecast because of higher energy consumption by major and large business customers. In 2024-25, energy consumption is forecast to decrease compared to 2023-24. Actual weather conditions in 2023-24 have been warmer compared to 2022-23 and long-term trends. Energy consumption forecasts for 2024-25 assume that weather conditions will revert to the long-term trend. Relative to 2023-24, the 2024-25 financial year also has one less day (being a non-leap year), contributing to a lower energy consumption forecast.
- Energy – residential, inc.controlled load	4,360	4,192	4,167	Residential energy consumption is expected to be lower than forecast in 2023-24, driven by a warmer winter and lower customer growth than originally forecast. Residential consumption is expected to reduce further in 2024-25 due to continued uptake of solar and the expectation that 2024-25 weather conditions will go back to normal long-term weather conditions. Relative to 2023-24, 2024-25 has one less day, being a non-leap year.
- Energy – small business	1,456	1,374	1,341	Small business energy consumption in 2023-24 is being subdued by the reduction in economic activity and lower than expected customer numbers. At the time of preparation of

[1] Refer to 'Tables' sheet, of the SCS pricing model, Output Table 9.

Quantity	Forecast2023-24	Estimate 2023-24	Forecast 2024-25	Variance and explanation of change
				the 2023-24 forecast, Deloitte Access Economics: Business Outlook 2022 forecasts were more optimistic compared with the more recent December 2023 economic outlook for the remainder of the year. In 2024-25, consumption is expected to be lower than 2023-24 due to continued installations of solar PV decreasing sales by creating an alternative source of supply.
Customer no. total	**759,269**	**751,123**	**763,951**	At the total network level, the difference between estimate for 2023-24 is immaterial compared to the 2023-24 original forecast. In 2024-25 customer numbers are expected to increase. However, based on independent analysis, we have assumed the rate of growth to be slower than previously forecast.
- Customer no. residential	659,771	652,105	664,092	The difference between the 2023-24 forecast and estimated customer numbers is immaterial. This could be due to the timing of new connections, as customer numbers used for the pricing proposal are based on a mid-year estimate (reflecting that customers do not all connect to the network at one time).
- Customer no. small business	91,939	91,804	92,698	Growth in customer numbers in 2023-24 has been below forecast due to outturn economic activity being lower than expected at the time the 2023-24 forecast was developed. Small business customer numbers are projected to grow in 2024-25.

2.1 Forecasting methodology and key drivers

Energy consumption forecasts are prepared at the total network level, at customer category levels and for certain individually calculated network tariffs. The energy and customer number forecast model that Ergon Energy Network utilises for low voltage (LV) customers (Standard Asset Customer (SAC) tariff class) is based on a combination of econometric forecasts and trend extrapolation that incorporates key drivers of energy consumption (e.g. temperature and humidity indices, Queensland State Product and Population) both directly and indirectly.

The energy forecast model is consistent with the model externally reviewed in February 2023. This review concluded that the forecasting methodology implemented across all tariff classes for both the Ergon Energy Network and Energex networks is of a suitably high standard and fit for purpose, and the forecast generated is in accordance with best practice principles.

Movements in energy consumption, demand and customer numbers can often be attributed to changes in a range of variables including economic and weather conditions. Our forecast methodology uses a systematic process to capture the underlying relationships between energy sales and these drivers of change. The forecast model estimates future movements under different scenarios as new data is made available. A similar approach is applied to customer number forecasts.

Differences in forecast and estimate quantities in any particular year relates to underlying changes to drivers with updated information.

The key drivers used for the forecast model and the source data used for the estimates of forecasts in both the current and prior year pricing proposals is summarised in Table 2 below.

Table 2: Key inputs to forecasts

Key Driver	Source	**Basis of forecasts** (2023-24 pricing proposal)	**Basis of estimate** (2024-25 pricing proposal)
Consumption data	Internal metering data	Actuals up to end of October 2022	Actuals up to end of October 2023
Weather – key indicators	Bureau of Metrology via PI Application	Actuals up to December 2022	Actuals up to January 2024
NMI/Customer numbers	PEACE Application	Actuals up to December 2022	Actuals up to January 2024
Population Projections	Deloitte Access Economics (DAE): Business Outlook	DAE: Business Outlook December 2022	DAE: Business Outlook December 2023
Economic Growth	Deloitte Access Economics: Business Outlook	DAE: Business Outlook December 2022	DAE: Business Outlook December 2023
Consumer Energy Resources (CER) Forecast	Blunomy Consulting	EQL CER Forecast 2022	Actuals up to end of October 2023

Energy and customer forecasts estimated at the customer segment level are further allocated to different tariffs within the customer segment. The application of energy consumption and customer numbers forecasts to each customer segment is explained in Table 3 below.

Table 3: Application of forecast quantities to each customer segment

Quantity by customer type	Methodology for allocation of forecast quantities to tariff and charging parameters
Energy consumption	
Major customers	Energy and maximum demand forecasts for major Individually Calculated Customers (ICC) and Connection Asset Customers (CAC) are individually developed. The energy forecast is based on a review of each customer's recent actual consumption history plus any confirmed future operational changes. Any new customers are included using forecast data provided with their connection application.
Low voltage business	Forecast energy consumption for a LV business is firstly split between small business and SAC Large customers based on historic energy consumption data. The forecast energy consumption is then apportioned to each tariff and charging component, including Time of Use (TOU) charging windows based on historic trend.
Residential	Forecast energy consumption for the residential sector is apportioned to each tariff and charging component (including TOU charging windows) based on historic trend. Consumption for new customers is allocated to the default tariffs.
Unmetered	Forecasts for unmetered tariff energy consumption are based on simple linear regression or exponential smoothing models, incorporating total device counts, device energy efficiency data and replacement programs (where available).
Controlled Load	Forecasts for controlled load quantities are based on a multiple linear regression model. Explanatory variables to the model include the number of National Metering Identifier (NMI) records assigned as residential and the number of NMI's recorded as installing rooftop solar photovoltaic (PV). Residential customers with controlled load often disconnect after installing a PV system.
Customer numbers	
Major customers	ICC and CAC customer numbers are based on the latest actual active NMI list.
Low voltage business	An average of current year and forecast year customer numbers is used for price setting purposes, reflecting that customers do not all connect to the network at one time (and therefore do not all pay the fixed daily charges for the full financial year). Forecast LV business customer numbers are firstly apportioned between small business and SAC Large categories based on historic trends. Within each of these segments, the forecast customer numbers are then apportioned to each tariff based on tariff assignment policy, forecast smart meter uptake (or churn) and historic trends. The forecasts assume all new customers are assigned to the default tariff in each customer segment.
Residential	An average of current year and forecast year customer numbers is used for price setting purposes, reflecting that customers do not all connect to the network at one time (and therefore do not all pay the fixed daily charges for the full financial year).

Quantity by customer type	Methodology for allocation of forecast quantities to tariff and charging parameters
	Forecast residential customer numbers are apportioned to each tariff based on tariff assignment policy, forecast smart meter uptake (churn) and historic trends. The forecasts assume all new customers are assigned to the default tariff in each customer segment.
Unmetered	Customer numbers are not required for unmetered tariff price setting as unmetered tariffs do not have a fixed charge.
Controlled Load	Customer numbers are not required for controlled load tariff price setting as secondary tariffs do not currently have a fixed charge.

3 TARIFFS

3.1 Standard control services

The 'Tariff schedule' sheet of the SCS pricing model sets out the proposed 2024-25 prices for standard control services.

All tariffs remain in the same tariff class as the current tariff structure statement.[2] This is demonstrated in tariff schedule 2 of the SCS pricing model.

All tariffs retain the same charging parameters as the current tariff structure statement.[3] This is also demonstrated in tariff schedule 2 of the SCS pricing model.

Below is a summary of each charging parameter.

Table 4: Charging parameters

Charging parameters	Unit	Explanation
Fixed charge	$/day	Daily supply charge. Applies as a rate ($) per day to all primary tariffs.
General service charge	$/kWh	Applies to ICC site-specific tariffs for anytime energy consumption charge.
Common service charge	$/kWh	Applies to ICC site-specific tariffs for anytime energy consumption.
Volume charge	$/kWh	Applies to anytime energy consumption.
Volume Block 1	$/kWh	Applies to Inclining Block Tariffs (IBT tariffs) for residential and small business customers. Applies to consumption <1,000 kWh per year.
Volume Block 2	$/kWh	Applies to IBT tariffs for residential and small business customers. Applies to consumption 1,000 – 6,000 kWh per year for residential customers. Applies to consumption 1,000 – 20,000 kWh per year for small business customers.
Volume Block 3	$/kWh	Applies to IBT tariffs for residential and small business customers. Applies to consumption >6,000 kWh per year for residential customers.

[2] Ergon Energy Tariff Structure Statement 2020-25, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-amended-tariff-structure-statement-june-2020-erratum-august-2020-clean

[3] Ergon Energy Tariff Structure Statement 2020-25, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-amended-tariff-structure-statement-june-2020-erratum-august-2020-clean

Charging parameters	Unit	Explanation
		Applies to consumption >20,000 kWh per year for small business customers.
Volume evening charge	$/kWh	Applies to ToU Energy tariffs for residential and small business customers. Applies between 4pm to 9pm on weekdays and weekends for residential customers, and weekdays only for small business customers.
Volume overnight charge	$/kWh	Applies to ToU Energy tariffs for residential and small business customers: • between 9pm to 9am on weekdays and weekends for residential customers • between 9pm to 9am on weekdays and 4pm to 9am on weekends for small business customers.
Volume day charge	$/kWh	Applies to ToU Energy tariffs for residential and small business customers. Applies between 9am to 4pm on weekdays and weekends.
Volume off-peak charge	$/kWh	Applies to Transitional Network ToU tariffs: • Tariff 1 – weekdays all other times, weekends all times • Tariff 2 – weekdays and weekends all times.
Volume peak charge	$/kWh	Applies to Transitional Network ToU tariffs: • Tariff 1 – weekdays 7am – 9pm • Tariff 2 – weekdays and weekends 7am-7pm or 7:30am-7:30pm or 8am-8pm.
Volume Peak Charge (over 10,000)	$/kWh	Applies to Transitional Network ToU tariffs. Tariff 1 – weekdays 7am – 9pm >10,000 kWh per year.
Volume Non Summer Charge	$/kWh	Applies to Seasonal ToU demand tariffs. Applies to all times during non-summer months.
Volume Summer Charge	$/kWh	Applies to Seasonal ToU demand tariffs. Applies to all times during summer months.
Capacity charge	$/kVA	Applies to the ICC site-specific tariffs.
Non-Summer Capacity Charge	$/kVA	Applies to Seasonal ToU demand CAC tariffs.

Charging parameters	Unit	Explanation
		Applies to the maximum of authorised kVA demand or the monthly actual kVA maximum demand all times during non-summer months and all times during summer months excluding demands occurring during the peak window of 10am to 8pm on summer weekdays.
Minimum Capacity Charge	$/kW	Applies to Transitional Network ToU tariff 3. Applies to pump size up to 7.5kW.
Remaining Capacity Charge	$/kW	Applies to Transitional Network ToU tariff 3. Applies to pump size >7.5kW.
Demand charge kVA	$/kVA	Monthly single highest kVA demand in a 30-minute window. Applied to ICC and CAC anytime tariffs.
Peak demand charge kVA	$/kVA	Applies to Large Business ToU Demand tariff. Applies to single highest 30-minute kVA demand during the month between the hours of 4pm and 9pm.
Excess Demand Charge	$/kW	Applies to Large Business ToU Demand tariff. Applies to the single maximum demand outside the peak demand window minus the maximum demand during the peak demand window.
Summer Demand Charge kVA	$/kVA	Applies to Seasonal ToU Demand tariffs CAC. Applies to maximum half hour kVA demand 10am to 8pm during summer months.
Demand charge kW	$/kW	Applies to SAC>100MWh anytime tariffs. Applies to single highest 30-minute kVA/kW demand during the month.
Peak demand charge kW	$/kW	Applies to ToU demand tariffs. Applies to the highest half hourly kW demand between 4pm to 9pm weekdays and weekends for residential customers. Applies to the highest half hourly kW demand between 4pm to 9pm weekdays for small business customers.
Off-Peak demand charge kW	$/kW	Not used.
Non Summer Demand Charge kW	$/kW	Applies to Seasonal ToU Demand SAC>100MWh tariffs. Applies to maximum half hour kW demand all time during non-summer months above 40kW.

Charging parameters	Unit	Explanation
Summer Demand Charge kW		Applies to Seasonal ToU Demand tariffs SAC>100MWh per annum. Applies to maximum half hour kW demand 10am to 8pm during summer months above 20kW.
Location charge	$/kW	Monthly single highest kW demand in a 30-minute window. Applied to ICC tariffs only.
Fixed Band 1 – 5 charges	$/day	Applies as a rate ($) per day, with different charges applying to 20 MWh per year blocks. There are five blocks: 0<20 MWh per year, 20<40 MWh per year, 40<60 MWh per year, 60<80 per year, and >80 MWh per year. Applies to the following tariffs only: • Small Business Wide Inclining Fixed Tariff • Small Business ToU Energy.
Connection unit charge	$/day/connection unit	Applies to CAC tariffs only.
Off-Peak Capacity Import Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Trough Demand Import Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Peak Demand Import Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Off-Peak Capacity Export Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Trough Demand Export Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Peak Demand Export Charge	$/kVA	Not used. Charge was applied to 2023-24 trial tariff which has been discontinued.
Critical Peak Period Reward	$/kW	Applies to 2024-25 trial tariffs.

Charging parameters	Unit	Explanation
		Reward for Exports in notified Critical Peak Reward periods.
Critical Peak Period Import	$/kVA	Applies to 2024-25 trial tariffs. Charge for Imports in notified Critical Peak Import periods.
Critical Peak Period Export	$/kW	Applies to 2024-25 trial tariffs. Charge for Exports in notified Critical Peak Export periods above 1.5kW.

The expected weighted average revenue for each tariff class for the current and forecast years is demonstrated in output table 5 of the SCS pricing model.

The expected weighted average revenue raised from each tariff class, other than the SAC tariff class, does not exceed the corresponding expected weighted average revenue for the preceding regulatory year by more than the permissible percentage. This permissible percentage is calculated in accordance with the determination.[4] This is demonstrated in compliance table 3 of the SCS pricing model.

The expected weighted average revenue to be raised from the SAC tariff class exceeds the permissible percentage when calculated in accordance with the determination as demonstrated in compliance table 3 of the SCS pricing model. This exceedance is based on updated revenue and quantity inputs. Rebalancing revenue recovery by increasing prices in other tariff classes would only result in the model returning a similar issue for that tariff class. Ergon Energy Network has determined that the only way to achieve a result under the permissible percentage for the SAC tariff class, based on the current quantity forecasts for 2024-25, is to recover less than the allowed revenue in 2024-25 or to modify the forecast demand quantites.

Ergon Energy Network does not consider that such an under-recovery would be an appropriate application of the pricing principles that will contribute to the achievement of the network pricing objective. It also does not consider that it would be consistent with the intent of the side constraint mechanism. Accordingly, Ergon Energy Network does not propose such an under-recovery in this pricing proposal.

Ergon Energy Network staff raised the issue relating to the permissible percentage exceedance for SAC tariff class with AER staff as soon as practicable after becoming aware of the issue. AER staff advised that this issue has been encountered previously.

Ergon Energy Network understands the issue is similar to that which contributed to the AER undertaking a review of the side constraint mechanism in 2022 as part of its annual pricing process review. Following the review, the AER published its final position paper on the side constraint mechanism in November 2022.[5]

In its final position paper on the side constraint mechanism, the AER indicated:

[4] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

[5] AER, Annual pricing process review – Side constraint mechanism – Final position paper, November 2022.

> *"we recently encountered issues where the side constraint mechanism conflicted with other elements of the regulatory framework. In one instance, strict compliance with our intended application of the side constraint mechanism impeded a distributor from recovering its allowed revenues under the revenue cap mechanism…..*
>
> *The side constraint mechanism should not produce these unintended outcomes and as a result the mechanism, as we intended it to be applied, needed amending."*[6]

In the paper the AER introduced a revised side constraint mechanism, including to account for changing energy quantities. The AER noted that *"if quantities are not accounted for there is a disconnect between the movements in allowed annual revenue and the allowed tariff class revenues by the side constraint."*[7]

Ergon Energy Network understands future distribution determinations will include the revised side constraint mechanism formula as an application of the existing side constraint set out in clause 6.18.6 of the National Electricity Rules.

The AER has provided Ergon Energy Network with a pricing model which includes a revised formula to apply the side constraint mechanism. When this revised formula is applied the expected weighted average revenue raised from each tariff class (including the SAC tariff class) does not exceed the corresponding expected weighted average revenue for the preceding regulatory year by more than the permissible percentage (demonstrated in compliance table 3 of the SCS pricing model).

The revised formula represents the AER's preferred application of the side constraint mechanism as published in its final position paper on the side constraint mechanism.[8] Given this, Ergon Energy Network has submitted this pricing proposal notwithstanding it is not in strict compliance with the application of the side constraint mechanism formula in the determination.[9]

Ergon Energy Network acknowledges the assistance and collaboration with AER staff to date on this issue. Their assistance has been invaluable. Ergon Energy Network looks forward to further engaging and cooperating with the AER on this issue.

3.2 Alternative control services

The ACS pricing model sets out the proposed 2024-25 prices for alternative control services.

[6] AER, Annual pricing process review – Side constraint mechanism – Final position paper, November 2022 at page 6.
[7] AER, Annual pricing process review – Side constraint mechanism – Final position paper, November 2022 at page 8.
[8] AER, Annual pricing process review – Side constraint mechanism – Final position paper, November 2022.
[9] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

Ergon Energy Network will offer the same list of services for metering, public lighting, and ancillary network services as approved in the AER's final determination for alternative control services.[10] The list of services for metering, public lighting, and fee-based services is provided in the ACS pricing model. Quoted services are provided in line with the approved control mechanism formula,[11] using the applicable labour rates in the ACS pricing model.

3.3 Tariff variations

We are anticipating variations or adjustments to our tariff prices, tariff class or charging parameters within the 2024-25 period.

3.3.1 Standard Control Services

Consistent with previous years, we propose to adjust our ICC network tariff prices in circumstances where an ICC customer advises us that they intend to alter their demand or connection characteristics during the course of the year. In these circumstances, we will recalculate the customer's site-specific charge with the adjustment applied to the fixed, capacity and demand charging parameters for ICC customers.

In accordance with our tariff structure statement, these adjustments are required to ensure these tariffs remain cost reflective. Any changes in site-specific charges for ICC customers will occur at the next network bill.

When new site-specific tariffs are created for new ICC connections during 2024-25, the price setting mechanism will be in line with the methodology set out in Ergon Energy Network's 2020-25 tariff structure statement and Appendix B to the Pricing Proposal Overview document (refer to ICC price setting methodology) with the rates reflecting the customer's connection characteristics and the specifically identified portion of the shared distribution network utilised for the electricity supply.

There are no other variations or adjustments proposed to be made to standard control services tariffs during the 2024-25 regulatory year.

3.3.2 Alternative Control Services

The Queensland Government has historically set maximum price caps to apply to a subset of Ergon Energy Network's alternative control services through Schedule 8 of the *Electricity Regulation* 2006. Since the Schedule 8 maximum prices are imposed through Queensland legislation, they take precedence over the alternative control services prices approved by the AER.

It is important to note that the prices included in our pricing proposal have been derived under the AER's price-setting requirements. These prices, if subject to the Schedule 8 price caps, may be higher than those charged to customers.

Except for the application of Schedule 8 of the *Electricity Regulation* 2006 to a number of our fee-based alternative control services, there are no other variations or adjustments proposed to be made to alternative control services tariffs during the 2024-25 regulatory year.

[10] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 15 – Alternative control services , https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-15-alternative-control-services-june-2020
[11] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

3.4 Sub-threshold tariffs

Ergon Energy Network is proposing three sub-threshold tariffs for the regulatory year, with all three tariffs to be introduced from 1 July 2024. These are:

1. Large Dynamic Flex Storage tariff
2. High Voltage Dynamic Flex Storage, and
3. CAC Dynamic Price Storage.

Ergon Energy Network has notified the AER on these sub-threshold tariffs no later than four months before the start of a regulatory year. These are available on the AER website.

Each sub-threshold tariff has a forecast revenue that is less than 1 per cent of total allowable revenue, and all sub-threshold tariffs have a combined forecast revenue less than 5 per cent of total allowable revenue. This is demonstrated in compliance table 4 of the SCS pricing model.

Ergon Energy Network will not be continuing the two sub-threshold tariffs that were introduced in 2023-24. Those tariffs will cease on 30 June 2024.

4 PRICING PRINCIPLES

The revenue expected to be recovered from each tariff class lies on or between an upper bound representing the standalone cost of serving the retail customers who belong to that class and a lower bound representing the avoidable cost of not serving those retail customers. This is demonstrated in compliance table 5 of the SCS pricing model. These bounds were calculated by estimating of costs on the modification of the existing network to provide standard control services to the tariff class or classes concerned.

The stand-alone and avoidable costs for each tariff class are calculated in the manner described in our 2020-25 Tariff Structure Statement Explanatory Statement. Lower bound (avoidable) costs for each tariff class were derived by calculating hypothetical proportions of network assets that would be avoided if the specific tariff class were to be removed. Similarly the upper bound (stand-alone) costs for each tariff class were calculated based on the hypothetical proportions of network assets that would be required if only each tariff class was to be supplied in isolation. Replacement asset costs were used in this model as the basis for the cost allocation to tariff classes and to determine the avoidable and stand-alone cost proportions.

The sum of the revenue expected to be recovered from each tariff allows Ergon Energy Network to recover the expected revenue for the relevant services in accordance with the distribution. This is demonstrated in compliance table 1 of the SCS pricing model.

Each tariff is based on the long-run marginal cost of providing the service to which it relates to the retail customers assigned to that tariff.

The long-run marginal cost estimates have been escalated by inflation[12] from the previous pricing proposal.

[12] Source: ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter.

5 INDICATIVE PRICES

Revised indicative prices for standard control services tariffs are provided in input tables 29 and 30 of the SCS pricing model. Revised indicative price caps for alternative control services are provided in the ACS pricing model. These indicative price levels have been determined in accordance with the current tariff structure statement and updated to account for this pricing proposal.

The proposed tariff prices are materially different to the corresponding indicative prices and this is demonstrated in compliance tables 6 and 7 of the SCS pricing model. Brief notes have been written in column AS of the ‘Price comp. ind.’ sheet explaining the reasons for the difference. Furthermore, we explain below in greater detail the sources for the material differences between the proposed tariff prices and their corresponding indicative prices.

The highlighted differences between the indicative 2024-25 prices submitted as part of the 2023-24 pricing proposal and the proposed 2024-25 prices are as follows:

- adjustments in the demand or peak energy consumption prices to increase cost reflectivity and transition towards our long-run marginal cost estimates
- increases in the volume prices to recover the portion of the revenue cap that could not be fully recovered through the long-run marginal cost based peak charging parameters (volume charges are used to recover the residual portion of the revenue and balance to the revenue cap), and
- larger increases in prices for our grandfathered / legacy tariffs relative to the ‘open’ tariffs to incentivise customers to transition away from these tariffs. In accordance with our proposed 2025-30 tariff structure statement, we intend to close these legacy tariffs from 1 July 2025. Further information on tariffs proposed for closure, including stakeholder engagement and feedback received, is available in our proposed 2025-30 tariff structure statement.

6 TARIFF COMPONENTS

6.1 Distribution use of system charges

Tariffs designed to pass on distribution use of system charges are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of distributed use of system charges adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over or under recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms.[13]

The estimated distribution use of system revenue amount reflects the latest available financial, energy consumption, customer numbers and demand data. Estimated 2023-24 distribution use of system revenue is calculated by multiplying actual July 2023 to February 2024 quantities and estimated March 2024 to June 2024 quantities by the AER-approved 2023-24 network prices. Further information about the methodology used to develop forecast quantities for the remainder of 2023-24 is provided in Chapter 2 of this document.

Estimated Retailer of Last Resort (ROLR) amounts reflect the Statement of Charges debt from retailers who have gone into administration and triggered ROLR events.[14] These amounts have been incorporated in the 'Financials' sheet of the SCS pricing model.

Forecast distribution use of system amounts are calculated in a manner consistent with the AER's final decision by applying CPI, X-factor, Service Target Performance Incentive Scheme amount and the over or under recovery amounts as demonstrated in the SCS pricing model.

6.2 Designated pricing proposal charges

Tariffs designed to pass on designated pricing proposal charges are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of designated pricing proposal charges adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over or under recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms[15] and is compliant with the NER.

[13] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

[14] Refer to the attached Supporting information file, 'ROLR amounts' sheet

[15] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

Forecast and estimates of designated pricing proposal charges amounts that Ergon Energy Network is required to recover include the following:

- payments to Powerlink for transmission charges Ergon Energy Network expects to make in 2023-24 and 2024-25. Copies of Powerlink invoices for 2023-24 and Powerlink forecast charges for 2024-25 are attached.[16] Estimates payment amount for 2023-24 is calculated using eight months of actual data (July 2023 to February 2024) and four months (March 2024 to June 2024) of forecast data.
- avoided transmission use of system payments Ergon Energy Network expects to make in 2023-24 and 2024-25 to eligible Embedded Generators:
  - the estimated avoided transmission use of system payment amount is calculated by applying Powerlink's 2023-24 transmission charges to estimated quantities derived using eight months of actual data (July 2023 to February 2024) and four months of data reported for the same period in the prior year (March 2023 to June 2023), and
  - the forecast avoided transmission use of system payment amount is calculated by multiplying Powerlink's 2024-25 transmission charges by prior year energy consumption and demand quantities reported for eligible Embedded Generators.

  Estimated and forecast avoided transmission use of system payments calculations are provided in the attached Supporting information file.[17]
- inter-distributor payments to:
  - Energex for supply from the Postman's Ridge Transmission Connection Point in the Toowoomba area. Ergon Energy Network take supply from Energex at the Postman's Ridge Transmission Connection Point and distribute to a group of customers in the area. Energex bills Ergon Energy Network a network service charge for these network services, and
  - Energy Queensland's non-regulated network for the use of the unregulated 220 kV network which supplies the Cloncurry township in the Mount Isa pricing zone.[18]

  A copy of the invoices for these payments for 2023-24 has been attached.[19] Forecast 2024-25 payment amounts to Energex are calculated based on the proposed 2024-25 Energex network charges. Forecast payment amounts for the use of the unregulated 220kV network are estimated by escalating the 2023-24 payment amount by the inflation rate specified in the contract. The forecast inter-distributor payment calculations are provided in the attached Supporting information file.[20]

[16] Refer to attached Supporting information file, 'TUOS expenditure 2425' and 'TUOS expenditure 2324' sheets

[17] Refer to the attached Supporting information file, 'Avoided TUOS payments' sheet

[18] These costs are passed through to all customers in the Mount Isa pricing zone via DPPC (TUOS) charges.

[19] Refer to the attached Supporting information file, 'Interdistributor payment 2324' sheet

[20] Refer to the attached Supporting information file, 'Interdistributor payment 2425' sheet

6.3 System strength charges

Ergon Energy Network will pass through any relevant system strength charges as determined by the system strength service provider in Queensland (Powerlink), as required to relevant parties (being distribution customers and embedded generators) at system strength connection points on the distribution network. The following arrangements apply when an Inverter Based Resource proponent applies to connect to Ergon Energy Network's network:

- the proponent makes a decision based on preliminary system strength impact assessment whether to elect to pay the prescribed system strength charge or alternatively choose to self-remediate
- where the proponent elects to pay the system strength charge, Ergon Energy Network informs Powerlink who sets these charges, and
- when a connection is complete, Powerlink invoices Ergon Energy Network who in turn invoices the proponent the system strength charge.

The amount, structure, and timing of the amount billed by Ergon Energy Network will replicate, as far as is reasonably practicable the amount, structure, and timing of the corresponding system strength charge billed to Ergon Energy Network by Powerlink.

Advice from our major customer team is that, at this stage, proponents have chosen to self-remediate or change the configuration of their connection rather than elect to pay the system strength charges. In 2024-25 there is no revenue expected from system strength charges.

6.4 Jurisdictional scheme amounts

The Energy Industry Levy jurisdictional scheme has been amended by the Queensland Government since the last jurisdictional scheme approval date. In July 2023 the Regulator (established in section 62 of the *Electricity Act* 1994 *(Qld) (the Act)*) amended the Distribution Authority for Ergon Energy Network under section 200A of the Act. This means that Ergon Energy Network can be invoiced by the Department of Energy and Climate for 'other national policy and regulatory costs' (refer to clause 16(b)(ii) of Ergon Energy Network's Distribution Authority). The costs referenced relate only to the component of the annual fees under clause 16(b)(ii) of the Distribution Authority and do not include the component of the annual fees that fall under clause 16(b)(i).

Tariffs designed to pass on jurisdictional scheme amounts are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of jurisdictional scheme amounts adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over or under recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms[21] and is compliant with the NER.

Forecast and estimates of jurisdictional scheme revenue Ergon Energy Network is required to recover reflect:

- the Solar Bonus Scheme Feed-in Tariff payments Ergon Energy Network expects to make in 2023-24 and 2024-25 to eligible customers for energy supplied into our distribution network from specific micro-embedded generators. The Solar Bonus Scheme Feed-in Tariff

[21] Final Decision: Ergon Energy distribution determination 2020-25, Attachment 13 – Control mechanism, https://www.aer.gov.au/documents/final-decision-ergon-energy-distribution-determination-2020-25-attachment-13-control-mechanisms-november-2021-clean

payment forecast was completed by Energy Queensland in January 2024 and a summary of the report outlining the forecasting methodology has been attached,[22] and

- the 2023-24 and 2024-25 Energy Industry Levy covering a proportion of the Queensland Government's funding commitments for the Australian Energy Market Commission (AEMC) which Ergon Energy Network is obligated to pay under its Distribution Authority. A copy of the 2023-24 AEMC payment voucher and correspondence from the Department of Energy and Climate in relation to the additional invoiced costs is attached.[23] The forecast 2024-25 AEMC levy amount has been estimated by escalating the 2023-24 AEMC levy by the latest inflation rate.[24]

[22] Refer to the attached Supporting information file, 'Solar bonus' sheet
[23] Refer to the attached Supporting information file, 'AEMC levy' sheet
[24] Source: ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter 2023

7 COMPLIANCE

7.1 Compliance with the determination

We confirm that our tariff assignment policy and the methodology in which we review and assess the basis on which a customer is charged is unchanged from the current TSS and is compliant with the NER.

We also confirm that we are complying with the current TSS where we have made a commitment to:

- increase cost reflectivity of our tariffs by progressively transitioning the long-run marginal cost components of charges towards full long-run marginal cost recovery, and
- targeting a larger increase in revenue from legacy tariffs, while minimising changes in rates for our cost reflective tariffs.

Additionally, the AER's final determination on the 2020-25 TSS requires Ergon Energy Network to include a detailed description of the approach to setting the ICC tariffs in our annual pricing proposals. Ergon Energy Network's methodology for setting the price level of the ICC tariffs is provided in Appendix B: ICC price setting methodology in the supporting 2024-25 Pricing Proposal Overview document.

See section **Error! Reference source not found.** in relation to **Error! Reference source not found.**the expected weighted average revenue to be raised from the SAC tariff class, and the side constraint mechanism.

There are no other material changes that should be brought to the attention of the AER.

7.2 Compliance table

Table 5: Compliance table

Rule reference	Section reference
6.18.2(a)	Chapter 1 - Introduction
6.18.8(a)(3)	Chapter 2 - Demand forecasts
6.18.2(b)(2) 6.18.2(b)(3) 6.18.2(b)(4) 6.18.6 6.18.2(b)(5) 6.18.1C 11.141.8	Chapter 3 – Tariffs See section **Error! Reference source not found.** in relation to **Error! Reference source not found.**the expected weighted average revenue to be raised from the SAC tariff class, and the side constraint mechanism.
6.18.5(e) 6.18.5(f) 6.18.5(g)(2)	Chapter 4 - Pricing principles
6.18.2(d) 6.18.2(e) 6.18.2(b)(7A)	Chapter 5 - Indicative prices
6.18.2(b)(6) 6.18.2(b)(6A) 6.18.2(b)(6B) 6.18.2(b)(6C) 6.18.7 6.18.7A	Chapter 6 - Tariff components
6.18.3 6.18.4 6.18.2(b)(7) 6.18.2(b)(8)	Chapter 7 - Compliance

I, *Trudy Fraser*, *A/Executive General Manager Regulation*, confirm that the above statements are true and correct.

[redacted]

28 March 2024

Trudy Fraser

A/Executive General Manager Regulation

date