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.

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 large commercial, industrial and agricultural customers that use more than 100MWh (megawatt hours) of electricity a year – known as Standard Asset Customers – Large (SAC Large) – this is seeing us continue the reforms that commenced in 2014.

How we meet these requirements is addressed in our Tariff Structure Statement, published in November 2015, which covers our tariffs from 2017 out to 2020. This document provides comprehensive information on our network tariffs and how they are expected to change in the future.
Customers in this group are on demand-based tariffs. On these tariffs, a customer can reduce their network tariff costs by reducing peak demand and/or total energy use.

**ANY TIME DEMAND TARIFFS**

The general, any time demand tariff structures that customers have had access to traditionally have a kilowatt (kW) demand charge, a kilowatt-hour (kWh) energy charge (for the total amount of electricity used for the relevant billing period), and a fixed charge. The actual demand charge is based on the highest half-hour kW demand recorded in the monthly billing period. The meter records the average demand over each 30 minute period. It applies to the customer’s actual demand above a set threshold, which varies depending on which any time demand tariff is chosen. These four default tariffs are shown on the table on the next page.

In July 2014, we simplified these tariffs to start rebalancing our revenue recovery across the different tariff components. Since then, we have been continuing this process of reform. For 2016-17, we will also continue to phase out the Demand High Voltage tariffs. This tariff will only be available in the East Zone and is not available to new customers. We will also further rebalance our revenue recovery across the tariff components to better align them with the cost of meeting an additional unit of demand at peak, known as the Long Run Marginal Cost (LRMC).

**COMPONENTS OF ANY TIME DEMAND TARIFFS**

- **Actual demand charge ($/kW/mth)**
  - Applied to the kW amount by which actual monthly maximum demand is greater than the applicable demand threshold.
  - Threshold above which the demand charge applies:
    - Demand High Voltage - 400kW
    - Demand Large - 400kW
    - Demand Medium - 120kW
    - Demand Small - 30kW
- **Fixed charge ($/day)**
  - All year, as applicable
- **Any time energy ($/kWh)**
  - Total energy consumed

There are three charging components for the any time demand tariffs: an actual demand charge, a fixed charge and an any time energy charge.

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

In July 2015 we gave customers the opportunity to access a new Seasonal Time-of-Use Demand network tariff.

While similar to the any time demand tariffs, the tariff components and rates charged vary depending on the season of the year, day of the week, and the time-of-day. This recognises the cost associated with placing additional demand on the network, especially in the summer months. It provides the opportunity for real savings for customers for 90% of the time, when the network is not being used to its full capacity.

See over to find out more on how this tariff will be calculated for this user group.

This tariff has been well received and taken up by a number of customers through their retailer. The tariff is subject to the provision of tariff compliant metering.

Our preference is that this tariff, from July 2017, becomes the default tariff for new premises and customers moving into existing premises (with the required metering) with the option for the customer to choose the any time demand tariffs if desired.

Going forward, throughout the period of the Tariff Structure Statement, we plan to progressively increase the proportion of LRMC incorporated in the peak demand charge. This will strengthen the cost reflectivity of the tariff.

**KVA CHARGING REVIEWED**

As part of our network tariff strategy, we considered the introduction of kVA charging for our SAC Large customers. We recognise that this type of charging provides price signals to encourage customers to manage demand by better managing their power factor. However, the introduction of kVA in the SAC Large tariff structures will not be progressed during the period of the Tariff Structure Statement.

The preferred approach to implement kVA based price signals for this class of customers requires additional development and consultation. We will consult with stakeholders further on this issue as part of the development of our tariffs for post 2020.

**AVAILABLE NETWORK TARIFFS FOR SAC-LARGE**

The following tariffs are charged to a customer’s retailer. The retailer then charges the customer based on the contract they have with the customer or, in Ergon Energy Retail’s case, as a non-competing retailer, the Queensland Competition Authority’s (QCA) regulated retail prices or ‘Notified Prices’. Each network tariff has different rates for the three pricing zones: East, West and Mount Isa.
**THE TARIFF COMPONENTS**

### Summer peak demand charge ($/kW/mth)
- Maximum demand recorded in summer months above the 20kW threshold
- 10.00am-8.00pm summer weekdays

### Non-summer off-peak demand charge ($/kW/mth)
- Maximum demand recorded in non-summer months above the 40 kW threshold

### Non-summer off-peak energy charge ($/kWh)
- Total energy used in non-summer months

### Fixed charge ($/day)
- All year, as applicable

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

**Calculating the Seasonal Time-of-Use Demand Tariff**

Let’s look at how the demand components of the Seasonal Time-of-Use Demand tariff are calculated.

The summer peak demand charge only applies to monthly maximum demand between 10.00am and 8.00pm on a summer (December, January, February) weekday. This monthly demand charge is applied to the kW amount by which this monthly maximum demand exceeds 20kW (the demand threshold applicable to the peak period).

For non-summer months, a demand charge applies to the kW amount by which the recorded monthly maximum demand exceeds 40kW.

### An Example Customer

In this example, the business customer may be able to save money by responding to the price signal and bringing their usage down across a handful of peak demand days in the summer month of January.
The opportunity or impact on an individual business from the reforms could depend on whether the business is on the regulated retail prices determined by the QCA or on a contract with a competitive retailer.

For businesses on the regulated retail prices, the rate rebalancing in these reforms is being passed on by the QCA in their price determinations. For those on a market contract, the retailer or the contract the customer is on will determine if, how and when the changes will be passed through.

Currently, customers must request to opt in to a Seasonal Time-of-Use Demand tariff through their retailer. Individuals 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 on the regulated retail prices, Ergon Energy Retail will be able to advise on the potential benefit of this tariff. 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.

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.

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. The rates going forward reflect this. This has provided an ideal environment to implement our tariff reforms.

In addition, in moving gradually to undertake the reforms, we have made every effort to minimise the annual cost impact of these changes. It is important to note that, at least 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 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 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 large commercial, industrial and agricultural operators. The tariffs for this class are discussed in this guide.

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?

Please visit www.ergon.com.au/futurenetworktariffs