

May 2023

Statement of reasons: Ergon Energy’s Annual Pricing Proposal

The AER approves Ergon Energy’s 2023–24 pricing proposal and the tariffs contained within for commencement on 1 July 2023. Ergon Energy’s approved tariffs are set out on [our website](#).

Estimated network cost movements

The Queensland Competition Authority sets regulated prices for regional Queensland retail customers on the Ergon Energy network. These prices align with the prices charged by Energex under Queensland Government pricing rules. Price impacts outlined in this document will typically not be passed on directly to these small retail customers.

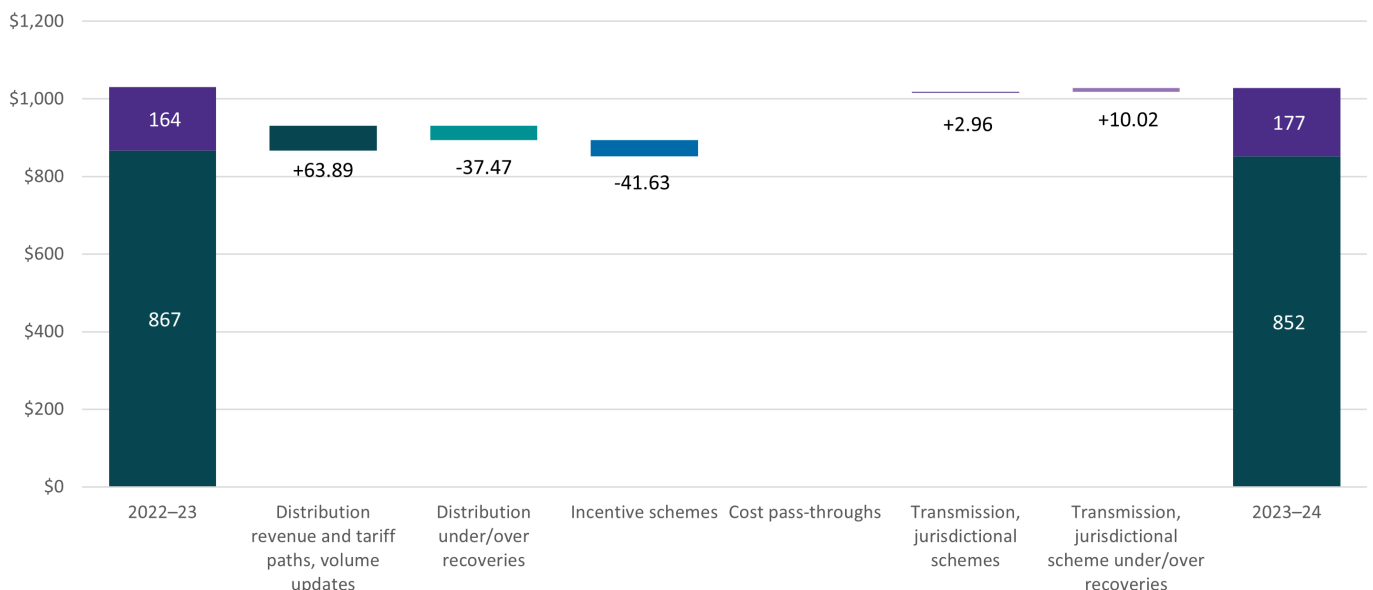
We estimate the network component of the typical bill for Ergon Energy’s customers to be \$2.23 lower for households and \$9.67 higher for small businesses in 2023–24 compared to 2022–23.

The relatively minor network cost movements reflect the slight decrease in Ergon Energy’s allowed revenue in 2023–24 which is being more than offset by the modest increase in consumption.

The decrease in revenue is predominantly due to the return of previously over-recovered distribution revenue and lower reward payments from incentive schemes. This is partially offset by higher than forecast inflation. We provide more detailed information on Ergon Energy’s consumption forecasts below.

We note electricity retailers ultimately determine how these underlying network tariffs are reflected in the retail prices offered to customers. The network charge component of an energy bill accounts for approximately 43% of the total residential retail bill.

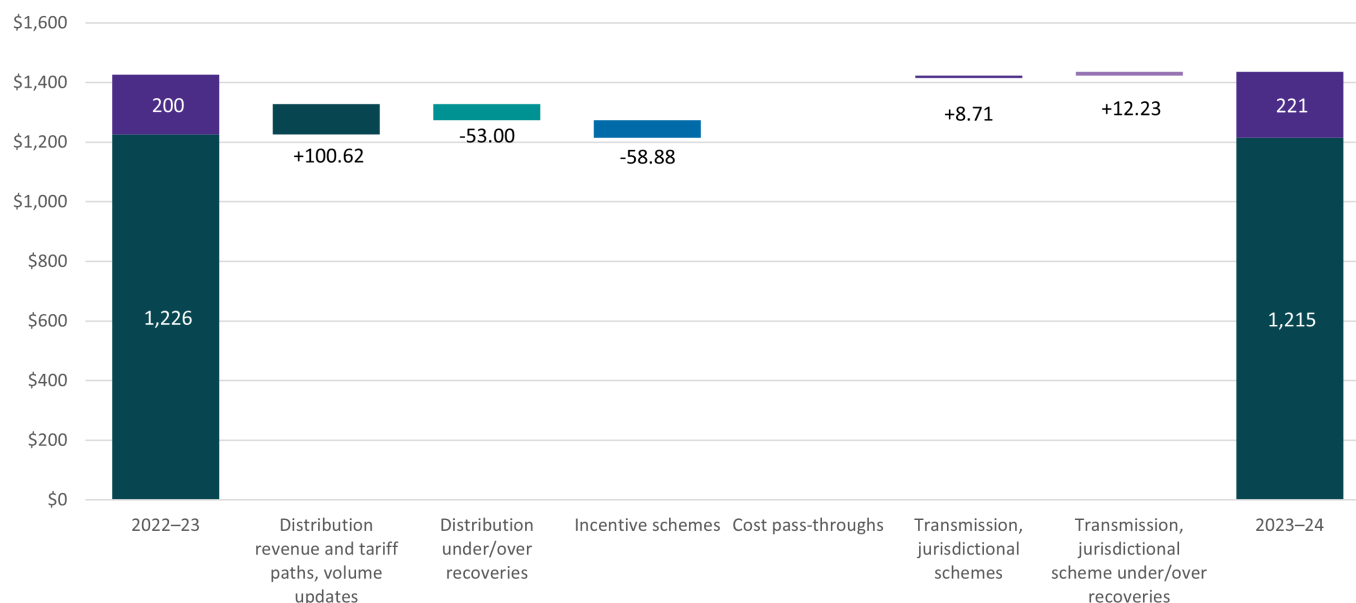
Figure 1 Residential: Average annual network charge



Source: AER analysis; Ergon Energy’s 2023–24 pricing proposal.

Note: The columns in the chart represent the average annual network charge for relevant years. Within the columns, the dark columns represent the distribution and metering components of the approved network tariffs. The purple columns represent revenues recovered on behalf of transmission networks and amounts related to schemes imposed by State or Territory Governments. The above analysis assumes electricity usage of 5,269kWh. This is based on the most recent data for residential electricity usage and customer numbers reported in Ergon Energy's 2023–24 pricing proposal.

Figure 2 Small business: Average annual network charge



Source: AER analysis; Ergon Energy's 2023–24 pricing proposal.

Note: The columns in the chart represent the average annual network charge for relevant years. Within the columns, the dark columns represent the distribution and metering components of the approved network tariffs. The purple columns represent revenues recovered on behalf of transmission networks and amounts related to schemes imposed by State or Territory Governments. The above analysis assumes electricity usage of 7,467kWh. This is based on the most recent data for small business electricity usage and customer numbers reported in Ergon Energy's 2023–24 pricing proposal.

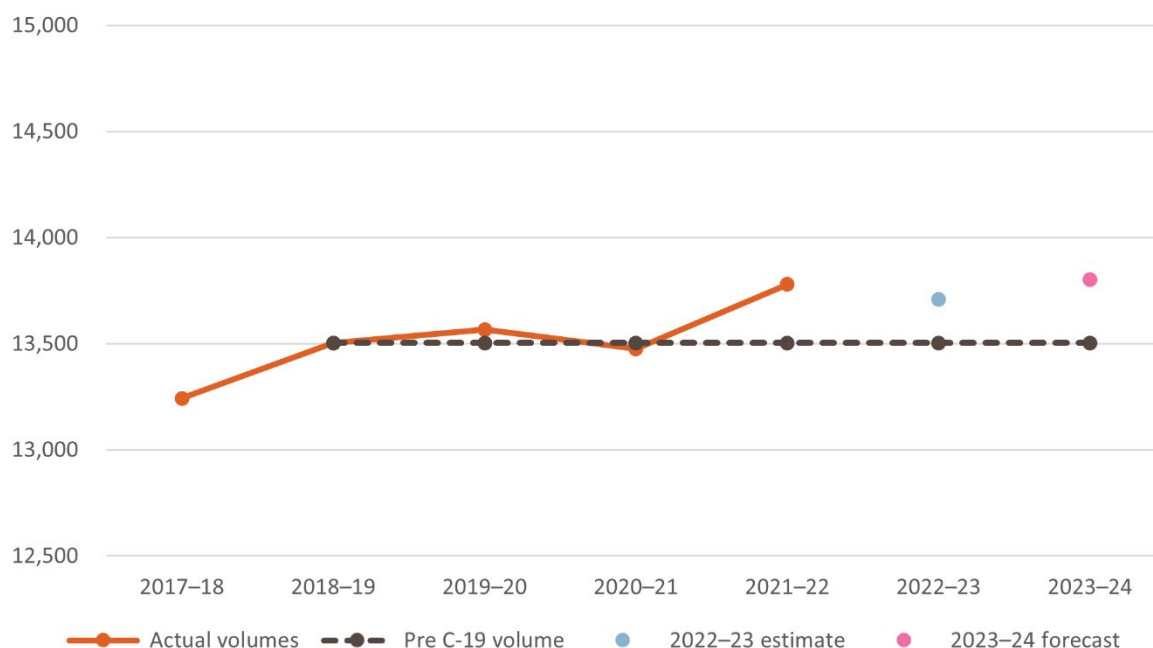
Actual bill impacts for individual customers will vary from our estimates as customers may be on different tariffs or consume different amounts of energy from our assumptions. Our analysis is based on flat rate tariffs, which are the most common tariffs for residential and small business customers. Where overall price movements are small, some tariffs may increase while others decrease.

Consumption forecasts

Electricity distributors operate under a revenue cap which sets the annual allowed revenue they can recover to deliver safe and reliable electricity within their networks. Prices are determined based on forecast consumption for that year, allowing distributors to recover their allowed revenue. If distributors forecast lower consumption, then other things being equal, prices are expected to be higher to allow them to recover the revenue allowed.

Our assessment of the distributors' consumption forecasts includes analysis of historical consumption trends and the reasons put forward for any departure from them, including changes in consumption following Australia's response to COVID-19.

Figure 3 Energy volumes (GWh)



Source: AER analysis; RIN data; Ergon Energy's 2023-24 pricing proposal.

Ergon Energy has forecast increased energy consumption for 2023-24. The forecast is based on a new forecasting approach with increases being driven by residential consumption, reflecting the general trend of new hybrid working arrangements.

We consider Ergon Energy's new forecasting approach robust, and the consumption forecasts are reasonable based on our analysis and the supporting information provided by Ergon Energy.

Under/over recovered revenues

Although we set the revenues the distributors can recover, the revenue they ultimately receive over an individual year is determined by the amount of actual energy consumed in that year.

- Actual energy consumption can fluctuate from forecast consumption because of a number of factors such as weather, increased uptake of solar PV, or, in recent times, in response to a pandemic. These fluctuations in energy consumption result in distributors recovering more or less than the allowable revenue we set.
- Variations also occur for the transmission costs and jurisdictional scheme amounts a distributor passes through to customers where actual payments differ to what was forecast.

To 'true-up' these variations in revenue, adjustments are made to allowable revenues for the upcoming financial year to ensure that over time, a distributor only recovers the revenue it is allowed.