

Energex

Statement of expected price trends

1 July 2015 to 30 June 2016



positive energy

Version control

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Energex Limited (Energex) is a Queensland Government Owned Corporation that builds, owns, operates and maintains the electricity distribution network in the region of South East Queensland. Energex provides distribution services to almost 1.4 million domestic and business connections, delivering electricity to 3.2 million residents and businesses across the region.

Energex's key focus is distributing safe, reliable and affordable electricity in a commercially balanced way that provides value for its customers, manages risk and builds a sustainable future.

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Network Pricing Manager
Regulation and Pricing
Energex
GPO Box 1461
BRISBANE QLD 4001

Requests and enquiries concerning the contents of this document should be sent by email to networkpricing@energex.com.au

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1 Introduction

RULE REQUIREMENT

Clause 6.18.9 Publication of information about tariffs and tariff classes

- (a) A Distribution Network Service Provider must maintain on its website:
- (3) a statement of expected price trends (to be updated for each regulatory year) giving an indication of how the Distribution Network Service Provider expects prices to change over the regulatory control period and the reasons for the expected price changes.

This document is Energex's Statement of Expected Price Trends for 2015-16. It has been prepared for the first year of Energex's 2015-20 regulatory control period in accordance with Clause 6.18.9(a)(3) of the National Electricity Rules (the Rules). The Rules limit the requirement to provide indicative price trends beyond the current regulatory control period, which ends 30 June 2020.

Energex submitted its Regulatory Proposal for the 2015-20 regulatory control period to the Australian Energy Regulator (AER) on 31 October 2014. Energex's Regulatory Proposal sets out indicative prices for Standard Control Services (SCS) and Alternative Control Services (ACS) for the 2015-20 period. The AER assessed Energex's Regulatory Proposal and on 30 April 2015 released a Preliminary Decision setting the revenue Energex is allowed to recover in the 2015-20 regulatory control period. For the purpose of developing the 2015-16 Pricing Proposal, the AER's Preliminary Decision was treated as the Final Determination for 2015-16. More information about Energex's Regulatory Proposal and the AER's Preliminary Decision is available on Energex's¹ and AER's² websites respectively.

It can be noted that the expected SCS prices included in this document may vary in future Statement of Price Trends as a result of the AER's Final Determination in October 2015, revised energy consumption forecasts and the annual adjustments to Energex's cost of debt.

This Statement of Expected Price Trends may be read in conjunction with Energex's 2015-16 Pricing Proposal³ submitted to the AER on 21 May 2015.

¹ Energex, Regulatory Proposal July 2015 to June 2020, 31 October 2014 (available on Energex's website: <https://www.energex.com.au/about-us/network-regulation-and-pricing/energex-regulatory-proposal>)

² Australian Energy Regulator, Preliminary Decision Energex determination 2015-16 to 2019-20, April 2015 (available on the AER's website: <http://www.aer.gov.au/node/20187>)

³ Energex, Annual Pricing Proposal 1 July 2015 to 30 June 2016, 21 May 2015 (available on the AER's website: <http://www.aer.gov.au/node/32533>)

2 2015-16 network prices

When developing the 2015-16 network tariffs and charges, Energex has considered factors such as the changing expectations of customers with regards to energy prices, the need to recover its regulated revenue and compliance with the pricing principles set out in the Rules.

Energex is committed to achieving a balanced commercial outcome while meeting its obligations to customers and managing sustainability and risk. Energex is also committed to ongoing engagement with customers and retailers in the resolution of issues surrounding current tariff reform initiatives. More information about Energex's tariff reform initiatives will be set out in the Tariff Structure Statement (TSS) document to be submitted to the AER in November 2015.

2.1 Regulatory framework

Under the current regulatory framework,⁴ prior to the commencement of a five year regulatory control period, the AER determines Energex's revenue cap for the entire period, including specifying the revenue requirement for each year. In April 2015, the AER published its Preliminary Decision for 2015-16 to 2019-20⁵ which detailed the regulated revenue that Energex is required to recover across the regulatory control period and for each regulatory year. To determine its Total Allowed Revenue (TR), Energex's regulated revenue requirements are adjusted annually to account for carry-overs, incentive payments and Feed-in-Tariff (FiT) pass through payments.

When setting tariffs and charges, Energex does so in a manner that is consistent with the pricing principles set out in clause 6.18.5 of the Rules.

For SCS, Energex's objective is to ensure its regulated revenue is recovered from customers through network tariffs and for ACS services, which are subject to a price cap, the objective is to ensure that the prices charged are cost-reflective.

Further details are provided in Chapter 2 and Chapter 13 of Energex's 2015-16 Annual Pricing Proposal.

2.2 Cost drivers for 2015-16

For 2015-16, Energex's TR includes costs to meet:

- Energy, demand and growth expectations
- Security and reliability standards

⁴ The regulatory framework exists under the National Electricity Law which is established under the *National Electricity (South Australia) Act 1996*.

⁵ Australian Energy Regulator, Preliminary Decision Energex determination 2015-16 to 2019-20, April 2015.

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- Contemporary network service expectations.

Details are provided in Section 2.2 of Energex's 2015-16 Annual Pricing Proposal.

2.3 Energex's 2015-16 network prices

The 2015-16 SCS and ACS prices are available in Energex's 2015-16 Annual Pricing Proposal⁶, published on the AER website. The 2015-16 revenue requirement is used as the basis for 2015-16 SCS prices, and the 2015-16 ACS price cap prices are provided in the AER Preliminary Decision.⁷

⁶ Energex, Annual Pricing Proposal 1 July 2015 to 30 June 2016, 21 May 2015.

⁷ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

3 Standard Control Services

The prices for the current regulatory control period for each SCS tariff class are provided in Table 3.1. Average DUoS prices for this purpose are defined as the forecast revenue approved by the AER in its Preliminary Decision⁸, plus the SBS FiT jurisdictional scheme amounts, divided by the forecast energy consumption. For this reason all average prices are expressed in c/kWh.

The DUoS prices for the 2016-20 period are indicative only.

Table 3.1 – Average SCS prices for the 2015-20 regulatory control period

Tariff Class ¹	Tariff	2015-16 (c/kWh)	2016-17 (c/kWh)	2017-18 (c/kWh)	2018-19 (c/kWh)	2019-20 (c/kWh)
Individually calculated customers (ICC)	NTC1000	2.14	2.07	1.93	1.86	1.60
Connection asset customers (CAC)	NTC3000 ²	11.17	10.71	9.99	9.62	9.35
	NTC4000	3.05	2.96	2.79	2.71	2.66
	NTC4500	4.11	4.00	3.76	3.64	3.57
	NTC8000 ²	5.94	5.58	5.10	4.80	4.57
Standard asset customers (SAC)	NTC8100	6.51	6.34	5.97	5.78	5.64
	NTC8300	9.15	8.79	8.19	7.85	7.60
	NTC8500	11.95	11.74	11.16	10.90	10.74
	NTC8800	10.95	10.75	10.21	9.97	9.81
	NTC8400	13.67	13.35	12.58	12.18	11.87
	NTC8900	12.97	9.87	4.73	3.13	2.36
	NTC9000	4.44	4.32	4.15	4.11	4.11
	NTC9100	8.69	8.39	7.82	7.39	6.97
NTC9600	8.69	8.37	7.81	7.54	7.33	

Notes:

- All prices exclude GST
- No longer offered to new customers from 1 July 2015.

Indicative Designated Pricing Proposal Charges (DPPC) tariffs have not been provided, as these charges are a direct pass-through from Powerlink.

The expected price changes over the 2015-20 regulatory control period are primarily driven by a declining regulated revenue, partially offset by the recovery of the STPIS carry-over in 2016-17 and a forecast decline in energy consumption.

⁸ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 1 – Annual revenue requirement, April 2015, page 7.

4 Alternative Control Services

Services under the ACS framework are provided on an individual fee-for-service basis to retailers and end-use customers. Over the 2015-20 regulatory control period, the prices of the ACS services provided by Energex will be based on a limited building block (e.g. public lighting and Type 6 metering services), price cap or quoted price approach.

4.1 Limited building block price cap services

4.1.1 Street lighting services

In the 2015-20 regulatory control period, street light prices (contributed and non-contributed) are based on limited building block components consistent with the approach set out by the AER's Preliminary Decision and will be escalated according to the price path approved by the AER in the Preliminary Decision.⁹ A summary of the prices for street lighting services for the current regulatory control period is provided in Table 4.1.

Table 4.1 – Summary of street light service prices for for the 2015-20 regulatory control period

Street light service	Daily prices (\$/day/luminaire) for the 2015-20 regulatory control period ¹				
	2015-16 ²	2016-17	2017-18	2018-19	2019-20
Major non-contributed (EOO)	0.78	0.80	0.82	0.83	0.85
Major contributed (GOO)	0.27	0.28	0.28	0.29	0.30
Minor non-contributed (EOO)	0.36	0.37	0.37	0.38	0.39
Minor contributed (GOO)	0.13	0.13	0.14	0.14	0.14

Notes:

- All prices exclude GST
- 2015-16 charges included in the Energex 2015-16 Annual Pricing Proposal

⁹ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

4.1.2 Metering services

In the AER's Framework and Approach for the 2015-20 regulatory control period, the AER classified Type 6 metering services as an ACS.¹⁰ In the Preliminary Decision, the AER approved two Type 6 metering charges:

- Upfront capital charge for all new and upgraded meters installed from 1 July 2015 (subject to a price cap form of control);
- Annual charges comprising of two components:
 - Capital – recovery based on Energex's metering asset base (MAB)
 - Non-capital - operating expenditure and tax.

The annual capital and non-capital charges for metering services over the regulatory control period are based on Energex's revenue requirement for Type 6 metering services using limited building block components consistent with the approach set out by the AER in its Preliminary Decision.¹¹

A summary of the metering capital and non-capital charges for the current regulatory control period is provided in Table 4.2.

Table 4.2 – Summary of annual metering services charges for the 2015-20 regulatory control period

Annual metering services	Costs	Prices (\$/year) for the 2015-20 regulatory control period ¹				
		2015-16 ²	2016-17	2017-18	2018-19	2019-20
Primary	Non-capital	10.81	10.65	10.49	10.33	10.18
	Capital	24.48	24.12	23.76	23.40	23.05
Load	Non-capital	3.24	3.19	3.15	3.10	3.05
	Capital	7.34	7.23	7.13	7.02	6.92
Solar PV	Non-capital	7.56	7.45	7.34	7.23	7.12
	Capital	17.14	16.88	16.63	16.38	16.14

Notes:

1. All prices exclude GST
2. 2015-16 charges included in the Energex 2015-16 Annual Pricing Proposal

¹⁰ Australian Energy Regulator, Final Framework and Approach for Energex and Ergon Energy - Regulatory control period commencing 1 July 2015, April 2014.

¹¹ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

4.2 Price cap services

The prices for price cap (or fee based) services from 2016-17 to 2019-20 are determined using the AER's approved based price cap control mechanism.¹² The prices beyond 2015-16 do not represent a binding capped price. The actual prices for price cap services each year will be subject to an annual escalation process: X factors specified in the AER Preliminary Decision and CPI adjustment updated each year as per the ACS control mechanism formula.

The prices for price cap services in 2015-16 were approved by the AER in the Preliminary Decision¹³ and are available in Energex's 2015-16 Annual Pricing Proposal.¹⁴ A summary of the X factors for price capped services for the current regulatory control period is provided in Table 4.2.

Table 4.2 – Summary of the fee-based percentage increase for the 2015-20 regulatory control period

All price cap services	Price	Annual adjustments for 2016-20 regulatory control period			
	2015-16	2016-17	2017-18	2018-19	2019-20
X factor		-0.44	-0.43	-0.46	-0.22

4.3 Quoted services

Quoted services are those services for which the nature and scope cannot be known in advance. The indicative prices for quoted services are determined using the AER's approved formula based price cap control mechanisms. These prices are provided in the AER Preliminary Decision¹⁵ for an illustrative configuration and do not represent a binding capped price for individual quoted services.

¹² Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

¹³ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

¹⁴ Energex, Annual Pricing Proposal 1 July 2015 to 30 June 2016, 21 May 2015 (available on the AER's website: <http://www.aer.gov.au/node/32533>).

¹⁵ Australian Energy Regulator, Preliminary Decision - Energex determination 2015-16 to 2019-20, Attachment 16 – Alternative control services, April 2015.

APPENDIX 1

Glossary

Appendix 1 – Glossary

1.1 Acronyms and abbreviations

Table A.1.1 - Acronyms and abbreviations used throughout this document

Abbreviation	Description
ACS	Alternative Control Services
AER	Australian Energy Regulator
CAC	Connection Asset Customers
DNSP	Distribution Network Service Provider
DPPC	Designated Pricing Proposal Charges (previously known as TUoS)
DUoS	Distribution Use of System
EOO	Luminaires owned and operated by Energex
FIT	Feed-in-Tariff
GOO	Luminaires gifted to Energex by a council and operated by Energex
ICC	Individually Calculated Customers
MAB	Metering Asset Base
PV	Photovoltaic (Solar PV)
Rules	National Electricity Rules
SAC	Standard Asset Customers
SCS	Standard Control Services

1.2 Measurements

Table A.1.2 - Units of measurement used throughout this document

Base Unit	Unit name	Multiples used in this document
VA	volt-ampere	kVA, MVA
h	hour	n/a
W	watt	W, kW, MW

Table A.1.3 - Multiples of prefixes (units) used throughout this document

Prefix symbol	Prefix name	Prefix multiples by unit	Prefixes used in this document
G	giga	10 ⁹	GWh
M	mega	1 million or 10 ⁶	MW, MWh, MVA
k	kilo	1 thousand or 10 ³	kV, kVA, kW, kWh

1.3 Definitions

Table A.1.4 - Definitions of terminology used throughout this document

Term	Abbreviation / Acronym	Definition
Australian Energy Regulator	AER	The economic regulator of the National Electricity Market established under Section 44AE of the <i>Competition and Consumer Act 2010</i> (Commonwealth).
Alternative Control Services	ACS	Customer specific or customer requested services. These services may also have potential for provision on a competitive basis rather than by the local DNSP. This service class includes the provision of Type 6 metering services, street lighting services, large customer connections, and price cap (fee based) and quoted services.
Connection Asset Customer	CAC	Tariff class typically applies to those customers with a network coupling point at 11 kV who are not allocated to the ICC.
Customer		Refer to Chapter 10 of the Rules.
Demand		The amount of electricity energy being consumed at a given time measured in either kilowatts (kW) or kilovolt amperes (kVA). The ratio between the two is the power factor.
Distribution Network Service Provider	DNSP	Refer to Chapter 10 of the Rules.
Distribution Use of System	DUoS	This refers to the network charges for the use of the distribution network.
Designated Pricing Proposal Charge	DPPC	Refers to the charges incurred for use of the transmission network; previously referred to as Transmission Use of System (TUoS).
Energy		The amount of electricity consumed by a customer (or all customers) over a period of time. Energy is measured in terms of watt hours (Wh), kilowatt hours (kWh), megawatt hours (MWh) or gigawatt hours (GWh).
Feed-in Tariff	FiT	The rate that is to be paid for the excess energy generated by customers and fed back into the electricity grid under the Queensland Solar Bonus Scheme. The FiT rate is determined by the Queensland Government and is paid by the purchaser of the excess energy.

Term	Abbreviation / Acronym	Definition
Final Determination		A distribution determination document published by the AER in its role as Energex's economic regulator that provides for distribution charges to increase during Energex's Regulatory Control Period.
Individually Calculated Customer	ICC	Typically those customers with electricity consumption greater than 40 GWh per year at a single connection point; or where the customers demand is greater than or equal to 10 MVA; or where a customer's circumstances mean that the average shared network charge becomes meaningless or distorted.
National Electricity Market	NEM	The interconnected electricity grid covering Queensland, New South Wales, Victoria, Tasmania, South Australia and the Australian Capital Territory.
National Electricity Rules	NER (the Rules)	The legal provisions (enforced by the AER) that regulate the operation of the NEM and the national electricity systems, the activities of market participants and the provision of connection services to retail customers.
Network Use of System	NUoS	The tariff for use of the distribution and transmission networks. It is the sum of both Distribution Use of System (DUoS) and Designated Pricing Proposal Charges (DPPC).
Pricing Proposal		Prepared by Energex in accordance with Clause 6.18.2(a)(2) of the Rules, it is provided to the AER for approval and outlines how Energex will collect its revenue during the relevant regulatory year.
Queensland Government Solar Bonus Scheme		A program that pays residential and other small energy customers for the surplus electricity generated from roof-top solar photovoltaic (PV) systems that is exported to the Queensland electricity grid.
Regulatory control period		A standard regulatory control period for DNSPs is a period of not less than 5 regulatory years; Energex's current regulatory control period is 2015-2020, commencing 1 July 2015.
Solar Photovoltaic	Solar PV	A system that uses sunlight to generate electricity for residential use. The system provides power for the premises with any excess production feeding into the electricity grid.
Standard Asset Customer	SAC	Generally those customers connected to the LV network.
Standard Control Service	SCS	Services that are central to electricity supply and therefore relied upon by most (if not all) customers. This service class includes network and connection services.

Term	Abbreviation / Acronym	Definition
Street lights (major)		Lamps in common use for major road lighting including: a) high pressure sodium 100 watt (S100) and above; b) metal halide 150 watt (H150) and above; and c) mercury vapour 250 watt (M250) and above.
Street lights (minor)		All lamps in common use for minor road lighting, including mercury vapour, high pressure sodium and fluorescent.
Tariff schedule		The tariff schedule is published by Energex annually at the beginning of the financial year and outlines its tariffs for SCS and ACS. It also provides information about how Energex assigns customers to tariff classes and the internal review process undertaken if a customer requests a review of a decision. The tariff schedule applies for the duration of the relevant financial year.