Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 13 – Tariff structure statement

September 2025

AUSTRALIAN ENERGY REGULATOR

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13.1 AusNet and the regulatory framework for tariffs

This attachment sets out our draft decision on AusNet's tariff structure statement to apply for the 2026–31 regulatory control period (2026–31 period). In this draft decision we include the context behind tariff structure statements and background on tariff reform.

Our draft decision and reasoning for our decision is set out in sections 13.2 and 13.5. respectively. Section 13.3 summarises AusNet's proposal and section 13.4 sets out our assessment approach. Section 13.1.1 discusses our view of tariff reform in Victoria followed by a discussion on the context for tariff structure statements and history of tariff reform in sections 13.1.2. The background to tariff reform is discussed in Appendix A.

In summary, our draft decision is to not approve AusNet's proposed 2026–31 tariff structure statement. We are not satisfied all elements comply with the pricing principles for direct control services in the National Electricity Rules (NER) and other requirements of the NER or contribute to achieving the National Electricity Objectives (NEO).[1,2] We consider that AusNet should further integrate its tariff strategy into its broader regulatory proposal. In particular, by better reflecting the capacity of its tariffs to incentivise small customer responses to mitigate the need for further investment, including in demand forecasts and proposed expenditure and to ensure efficient use of past investment. Despite having near-universal smart meter penetration in Victoria since 2013, the proportion of consumers in Victoria on cost reflective pricing is low compared to other jurisdictions in the NEM. We consider that Ausnet should engage further with stakeholders, including with retailers, to encourage take up of cost reflective tariffs and improve understanding of how tariff reform can complement (mitigate) its proposed expenditure.

Further, we are not satisfied that AusNet's use of 5-year demand driven capital expenditure (capex) forecasts to estimate long-run marginal costs (LRMC) is compliant with the pricing principles, nor that AusNet has adequately justified the basic export level for its proposed consumer energy resource (CER) tariff.

However, we do consider, in this round of tariff structure statements, that AusNet has proposed tariffs that make some progress on network tariff reform. Elements of its tariff structure statement support the price and emissions reduction elements of the NEO. In particular by encouraging consumption during periods when supply is dominated by renewable energy and supporting the efficient integration of CER, while promoting efficient use of network services.[3] This includes through proposing a low-priced solar soak charging period in the middle of the day for its residential time-of-use tariff; an opt-in CER tariff for residential customers; refinement of critical peak demand (CPD) charges for medium and large business customers and assignment of more customers to CPD tariffs; and the introduction of locational pricing for very large customers.

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1 NER, cl. 6.12.3(k).

2 NEL, s. 7.

3 NEL, s. 7.

We recognise that AusNet, along with CitiPower, Powercor, United Energy (CPU) and Jemena, are somewhat constrained in proposing a more progressive assignment of small customers with smart meters to cost reflective tariffs. This is because the Victorian Government does not support the mandatory assignment of small customers to cost reflective tariffs. In this context we encourage AusNet to seek avenues to make more progressive tariffs attractive to small customers who are better able to respond to price signals. This includes consumers with more flexible loads, like electric vehicles (EVs) or home batteries, whose response to network price signals could help mitigate the need for network investment in future regulatory periods. We consider AusNet's proposed tariff communication campaign forms part of its efforts to communicate benefits to those consumers.[4]

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period, providing consumers and retailers with certainty and transparency in relation to their distribution charges. This allows consumers to make more informed decisions about their energy use and investments in long-lived energy appliances and CER, such as roof-top solar. A tariff structure statement informs customer choices by:

- providing clear price signals—network tariffs which reflect what it costs to use electricity at different times can allow consumers (or their retailer) to make informed decisions to better manage their bills
- transitioning tariffs to greater cost reflectivity—with the requirement that distributors explicitly consider the impacts on retail customers, by engaging with consumers, consumer representatives and retailers in developing network tariff proposals
- managing future expectations—providing guidance for retailers, consumers and suppliers of services (e.g. local generation, storage and demand management services) by setting out the distributor's tariff approaches for a set period of time.

13.1.1 Implementation of reform in Victoria

We remain committed to continued adaptation of the network tariff reform program, as the energy system transitions to a greater reliance on distributed energy resources (DER)/CER. [5]

The pace of network tariff reform for small customers is relatively slow in Victoria compared to other NEM jurisdictions, despite Victoria's nearly 100% smart meter penetration

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4 We note that all 5 Victorian distributors proposed campaigns for the 2026–31 period that include tariff education. AusNet and Jemena proposed step changes that included their proposed campaigns. The AER's draft decisions have not approved these step changes on the basis they were not justified against the relevant NER criteria, and that the proposed costs could be managed under the growth in forecast opex in the next regulatory period that will result from the application of trend (see relevant operating expenditure draft decision attachments). Noting this, and that CPU proposed campaigns without proposing any step change, we encourage all 5 distributors to communicate the benefits of tariff reform in the 2026–31 period.

5 Distributed energy resources (DER) / consumer energy resources (CER) are renewable energy units or systems (including energy storage and energy management assets) that are commonly located at houses or businesses. Examples include rooftop solar units, battery storage, thermal energy storage, EVs and chargers, smart meters and home energy management systems. CER refers specifically to those resources owned by end consumers.

(compared to a NEM average of approximately 52%).[6] This is driven in large part by the Victorian Government's Order In Council (OIC)[7] that requires distributors to offer flat network tariffs to all customers unless they have EV fast chargers.[8] The distributors' 2024 Regulatory Information Notice (RIN) data indicates that the approximate percentage of residential customers on cost reflective tariffs is: AusNet 47% (prior to the OIC, AusNet had already reassigned many smart meter customers to cost reflective tariffs); Jemena 20%; CitiPower: 19%; Powercor: 32%; United Energy 16%. These compare to a NEM wide average of 37%.

During early engagement on their 2026–31 tariff structure statements, Victorian distributors had considered reassigning all residential customers to time-of-use tariffs (with an entitlement to opt-out back to a flat tariff if desired). A portion of these customers would likely have remained on time-of-use tariffs which would have progressed tariff reform. However, the Victorian Government has not supported either a bulk reassignment, or a shift to mandatory assignment policies and has maintained its support for the Victorian distributors existing (opt-in) assignment policies for *existing* time-of-use and proposed CER tariffs.[9] Victorian distributors' proposed tariff structure statements align with the Victorian Government's position and retain the opt-in assignment policies.

The pace of network tariff reform and encouraging take-up of cost reflective tariffs is particularly important given the significant demand-driven augmentation expenditure (augex) proposed by the Victorian distributors (approximately $431m proposed by AusNet).[10] AusNet notes it currently has high capacity utilisation relative to other networks.[11] However, well-designed network tariffs charged to retailers can shift *future* demand growth out of peak periods and into low/minimum demand periods. We consider that tariffs are a low-cost tool distributors can utilise to mitigate future expenditure by incentivising use of electricity in ways that increase use of existing capacity. AusNet has incorporated network tariffs in its wider proposal in the following ways:

- it includes that its tariff strategy, such as solar soak tariffs for small customers and proposed individually calculated tariffs (ICTs), can promote improved capacity utilisation[12]
- its demand forecast includes AEMO's EV charging profile which incorporates a gradual reduction in EV charging during peak demand periods in response to time-of-use tariffs.

However, AusNet has not otherwise assumed any reduction in peak demand due to residential time-of-use tariffs because it considers that retail customer response to AusNet's time-of-use tariffs has been historically low and insufficient to defer augmentation.[13] Conversely, AusNet explained that its CPD tariffs have been successful in reducing medium

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6 2024 Annual Regulatory Information Notices.

7 Electricity Industry Act, *Advanced Metering Infrastructure (Retail and Network Tariffs) Order,* 16 June 2021.

8 There is currently no method for distributors to identify customers with fast EV chargers.

9 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31,* June 2025, p. 9.

10 AusNet, *Electricity Distribution Price Review – 2026-31 Regulatory Proposal*, January 2025, p. 95.

11 AusNet, *Tariff Structure Explanatory Statement 2026–31, January 2025*, pp. 13 – 14.

12 AusNet, *Electricity Distribution Price Review – 2026-31 Regulatory Proposal*, January 2025, p. 16.

13 AusNet, *Electricity Distribution Price Review – 2026-31 Regulatory Proposal*, January 2025, p. 113.

and large business demand and helping to manage peak demand on its distribution network on certain peak days during summer.[14]

Stakeholder views on the pace of network tariff reform in Victoria are mixed. The Victorian Government's submission to the Victorian distributors' 2026–31 proposals supports existing assignment policies and a gradual increase in assignment to time-of-use tariffs in order to manage network utilisation and demand.[15] However, in workshop 2 of the Victorian distributors' joint engagement, a number of stakeholders expressed support for the Victorian distributors to bulk reassign small customers to the proposed default time-of-use tariffs.[16]

Further, AusNet's coordination group noted that the absence of mandated cost-reflective pricing has limited the ability of Victorian distribution networks to use targeted price signals to encourage efficient and future-focused energy usage patterns and to allocate CER enablement costs more fairly.[17] Similarly, AusNet's Tariffs and Pricing Panel agreed that there is a need for a broader communication strategy, which includes communication on how customers can benefit by responding to signals.[18]

CPU's customer advisory panel supported the tariff assignment policies *in the context of the Victorian Government's* ruling, but also recommended the Victorian distributors continue to work with the Victorian Government to assign small customers to time-of-use tariffs over the 2026-31 period in a way that manages impacts to vulnerable customers. They also encouraged CPU to explore other ways to ensure the costs of CER and electrification enablement are distributed fairly, including by promoting the benefits of optional time-of-use tariffs to customers who would materially benefit from it.[19] In this context, we reiterate that distributors should exhaust the levers to drive efficiency and utilisation of the network, and that tariffs (including controlled load tariffs) play an important role in this.

With perfect information, we would have a counterfactual scenario to show a direct relationship between distributors' expenditure proposals and the uptake of cost reflective network tariffs. Given the complex set of overlapping and uncontrolled variables that influence individual and aggregate demand profiles, there is no easily constructed counterfactual. However, there is evidence from other distributors who have more small customers on cost-reflective tariffs and tariff trials/pilots that indicates customers do respond to tariffs and usage can be shifted to increase network efficiency. For example:

- SA Power Networks, which has had time-of-use tariffs with a solar soak period for small customers since 2020 (including controlled load tariffs with the same charging windows and retailer managed supply), demonstrated a significant response to its solar soak

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14 AusNet, *Tariff Structure Explanatory Statement 2026–31, January 2025*, p. 35.

15 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31,* June 2025, p. 9.

16 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 10.

17 AusNet Coordination Group, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 10.

18 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 12.

19 CPU Customer Advisory Panel, *Submissions on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 25 (CitiPower), p. 27 (Powercor); pp. 24 – 25 (United Energy).

period, with a roughly 27% increase in controlled load electricity usage in the solar soak period from May 2021 to May 2025.[20]

- As mentioned above, AusNet's CPD tariffs have been successful in reducing medium and large business demand.[21]
- Early results from Ausgrid's current critical peak pricing *trial* tariff for small business customers[22] indicate that business customers respond to critical peak charges applied during critical events and shift use to off-peak times.
- Modelling by Energy Networks Australia showed future network price outcomes for consumers were sensitive to the proportion of EV charging that occurs in peak periods, and that outcomes are better for consumers if charging is managed.[23]
- Findings from Origin Energy's 'Smart Charging Trial – Lesson Learnt Report' show that EV owners are willing to change their charging behaviour in response to price signals, and that financial incentives reduced charging consumption at peak times by 20%. It also found that opt-in third party control of charging decreased charging in peak periods by an additional 4% on top of the price response.[24]
- An AGL EV orchestration trial found that customers who were on time-of-use tariffs before joining the trial were already responding to tariff signals when charging.[25]
- Our draft decision on Evoenergy's 2024 – 29 revenue proposal demonstrated the potential for direct customer price outcomes from distributors integrating their tariff and expenditure proposals. Our draft decision resulted in a $71.6 million reduction in proposed capex on the back of requiring Evoenergy to consider the impact of its cost reflective tariffs in reducing EV charging contribution to peak demand. [26]

The NER requires that a distributor's Overview include a summary of the interrelationship between the proposed tariff structure statement and relevant elements of the regulatory proposal (including the proposed connection policy and capex or operating expenditure (opex)).[27] AusNet, in its revised proposal, should further consider the capacity of *all* its tariff designs to incentivise a response, including with reference to its proposed tariff communication campaign, and should further integrate its tariff strategy (with reasonable anticipation of responsiveness to its tariffs), into the relevant elements of its broader regulatory proposal, including demand forecasts and expenditure proposals.

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20 SA Power Networks, *Submission to AEMC Discussion Paper – The Pricing Review*, 10 July 2025, p. 5.

21 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 34.

22 Ausgrid, *Tariff trial notification – 2025-26*, February 2025.

23 Energy Networks Australia*, Mind the Gap: Navigating a customer focused transition*, 6 July 2023 accessed 8 August 2023.

24 Origin, *EV Smart Charging Trial- Lessons Learnt Report*, May 2022.

25 AGL, *AGL Electric Vehicle Orchestration trial – Final Lessons Learnt Report,* May 2023, p. 5.

26 AER, *Draft Decision – Attachment 5 – Capital Expenditure – Evoenergy 2024-29 Distribution Revenue Determination,* September 2023, p. 20.

27 NER, cl. 6.8.2(c1)(1).

In consideration of the above examples, we encourage AusNet's revised proposal to further reflect on the capacity for well-designed network tariffs charged to retailers to shift future demand growth out of peak periods and into low/minimum demand periods. This includes by:

- Considering whether any perceived lack of response to AusNet's time-of-use tariffs may be influenced by retailer smoothing/muting of AusNet's price signals. Jemena provided some analysis in a response to an information request demonstrating that the peak-to-off-peak price ratio in retail offers in its network is approximately 2 times weaker than Jemena's residential time-of-use network tariff, which could be a factor affecting customers responsiveness to network price signals. [28]
- Considering whether any perceived lack of response may be influenced by AusNet's analysis being of customers assigned to cost reflective network tariffs, which obscures that a portion of AusNet customers on time-of-use network tariffs are on flat retail offers and see no time-based price signal to which they would respond. Any aggregation in the analysis of customers on variable charge retail offers with customers on flat retail offers would obscure any insights into customer responsiveness to network price signals.
- Considering whether any perceived lack of response may shift as the amount of, and number of customers with, flexible load and supply (CER) increases.
- Considering whether choices by retailers to pass through or otherwise respond to network price signals may shift under AusNet's proposed CER tariff and inclusion of a solar soak period in its residential time-of-use tariff, and in response to increased numbers of customers assigned to cost reflective network tariffs (albeit this increase is occurring slowly in Victoria).
- Creating a tangible plan to increase take-up of cost-reflective network tariffs or have a more ambitious transition path that is still consistent with Victorian Government's requirements. This could include providing more information on its proposed tariff communication initiatives aimed at incentivising take-up of cost-reflective tariffs.
- Continuing with and share results from AusNet's residential EV dynamic tariff trial (a solar soak tariff with an event driven signal that will notify customers to increase or curtail EV charging to manage up to 10 maximum/minimum demand days).

The transition towards increasing CER / DER makes the price incentives provided through network tariffs, to balance network supply and demand fluctuations, increasingly important. Options for cost reflective network tariff design lie across a spectrum, for example with varying attributes in terms of the strength of the incentive, whether they are locationally based, and whether they are simple and static or more dynamic and complex.[29] The price responsive nature of CER or smart appliances opens new opportunities for networks to mitigate investment needs using charges for critical demand and supply events. That is, sharper price signals that might be locational and/or include layering of short-run signals on tariffs still based on LRMC. However, the need for simpler network tariff options based on

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[28] Jemena Electricity Networks, *Information Request Jemena #010 – TSS clarifications,* March 2025.

[29] For example, various approaches to modern retail tariff design are shown in the Brattle Group's presentation, *Electricity Ratemaking and Equitable Rate Design, A survey of best practices*, June 2021.

long-run signals and geographical averaging will remain for a significant proportion of customers who prefer more predictable costs.

Incentives, in the form of cost-reflective network tariffs, coupled with increasing automation of responses to price signals or controls over electricity use and generation, are all necessary to achieving more efficient utilisation of network assets, and reducing future network costs.

13.1.2 Context for tariff structure statements

Retail pricing interactions with network tariffs

Network tariffs are charged to retailers and cost reflective network pricing is intended to facilitate retailer innovation to increase network capacity utilisation. Retailers can achieve this with retail offers that encourage consumers to shift their own behaviour, or with business models that offer control and orchestration of load and supply. More specifically, retailers may manage and respond to network price signals and customer preferences by offering customers insurance style flat tariffs (either with a price premium to account for network tariff price risk or with elements of control to manage the price risk), pass network prices through to end users, or with 'prices for devices' style offers. With increasing levels of CER, we anticipate more retailers and intermediaries will develop business models that seek value from cost reflective tariffs and flexible load/supply. We encourage retailers to continue to innovate to access this value through helping consumers that are willing and able to shift and reduce their load, including through drawing on energy efficiency initiatives and offering flat retail tariffs where this is preferred by customers.

Retail pricing regulation

In Victoria, retailers' default standing offer contracts must adhere to the Victorian Default Offer (VDO). The VDO is determined by the Victorian Essential Services Commission and sets the *maximum* price that retailers can charge for electricity sold to residential, small business and most embedded network customers who are on standing offers. The VDO also acts as a reference price that retailers must use to advertise the discounts on their market offers. This can help customers find the market offer that will give them the best value for money. When advertising or promoting offers, retailers must show the price of their market offer in comparison to the VDO price. This helps customers more simply compare the price of different offers. Residential customers and small business customers that use less than 40 MWh (megawatt hours) of electricity per year can ask their retailer to put them on a default retail offer.

References to tariff assignment and customers impacts

In this decision document we may refer to (retail) customers being assigned to a network tariff and these customers having choice in network tariffs or the ability (or inability) to opt into or out of tariffs. We also comment on customer bill impacts under the distributors' assignment policies. These customer bill impacts assume the network price signals are directly passed on to the end-use customer by the retailer. We acknowledge that where choice is provided, it is the retailer who may seek reassignment through network tariff opt-in or opt-out provisions, rather than the customer. Actual customer outcomes as a result of approved tariff structure statements, and the incentive for any behavioural change by

customers to the approved network tariffs, will depend on the retailer, how the retailer chose to package or pass on the network tariff costs, and the retail tariff the customer chooses.

For ease of communicating our decision, our language may not always accurately reflect the indirectness of the relationship between customers and network tariffs.

13.2 Draft decision

Our draft decision is to not approve AusNet's proposed 2026–31 tariff structure statement. While we are satisfied many elements of the proposed tariff structure statement comply with the pricing principles and contribute to the achievement of the network pricing objective (NPO),[30] we are not satisfied all elements comply with the pricing principles for direct control services in the NER and other requirements of the NER, or contribute to achieving the NEO.[31,32]

We approve the following elements of AusNet's proposed tariff structure statement:

- residential tariff structures and assignment policies excluding the opt-in CER (two-way pricing) tariff
- residential dedicated circuit tariff
- small business and assignment policies tariff structures
- medium and large business tariff structures and assignment policies
- individually calculated tariffs
- tariff class and assignment policies.

We do not approve the following elements of AusNet's proposed tariff structure statement because we are not satisfied these elements comply with pricing principles or other applicable requirements of the NER or contribute to achieving the NEO, based on the information available:

- the LRMC methodology based on 5-year forecasts for demand driven capex is not consistent with our view of the long-run (10+ years) and we consider does not comply with pricing principle (per NER cl 6.18.5(f))
- the network bill impact analysis for residential customers affected by the proposed closure of residential demand tariffs and for medium and large business customers re-assigned to transitional CPD tariffs (per NER cl. 6.18.5(h) and NER cl. 6.18.5(i))
- justification of the proposed basic export level of 1 kWh/day (per NER cl. 11.141.13(b)(1)(i)), and calculation of the export LRMC based on a 5-year forecast (per NER cl 6.18.5(f)).

We require AusNet to make the following changes in its revised tariff structure statement:

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30 NER, cl. 6.18.5(a).

31 NER, cl. 6.12.3(k).

32 NEL, s. 7.

- calculate the LRMC for both its import and export services using forecasts based on at least a 10-year period (see section 13.5.8)
  - include costs for both flexible export services and supply improvements in the export LRMC calculations, as well as further explanation of the forecast avoidable costs that support export services which have been included or not included in export LRMC calculations (per NER cl 6.18.5(f))
  - provide more explanation regarding forecast expenditure for both the import and export services and how the proposed expenditure is related to provision of its services and forecast use for its services
  - include some explanation of the underlying forecast demand driving incremental expenditure for both import and export services.
- include further information set out in section 13.5.4 to justify the proposed basic export level[33] of 1 kWh/day for the CER tariff
- provide network bill impacts for residential customers affected by the proposed closure of residential demand tariff and inclusion of its proposed CER tariff consistent with NER cl. 6.18.5(h) as set out in sections 13.5.3.4 and 13.5.4
- provide network bill impacts for large customers reassigned from legacy single rate or time-of-use tariffs to transitional CPD tariffs as set out in section 13.5.5
- clarify that the proposed dedicated circuit tariff will include 6 – 8 hours of supply (see section 13.5.3.5)
- more thoroughly explain how residual costs are recovered and demonstrate that revenue recovered from each proposed tariff reflects the total efficient costs of serving the customers assigned to it NER cl. 6.18.5 (g) (see section 13.6)
- include further consideration of unmetered tariffs to account for future type 9-meter loads and whether the tariff name (unmetered tariffs) is fit for purpose for the 2026–31 period (see section 13.5.5.3).

We also encourage AusNet to:

- continue to consult stakeholders to determine whether expanding its dedicated circuit tariffs to other flexible loads, such as slab heating and EV charging, may provide further benefit and explore whether retailers could be enabled to control supply on the dedicated circuit
- include further information explaining *why* some legacy dedicated circuit tariffs for customers with basic type 6 meters are being retained
- include network bill impact analysis for small business customers who may change their tariffs

[33] The basic export level is the amount of electricity that a customer will be able to export to the grid at no cost (NER cl. 11.141.12). The basic export level must apply for a 10-year period (that is, for two regulatory periods). This may be adjusted within the 10-year period.

- include further explanation on its export reward price level and consider including further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards
- consider refinements/alternatives to the average incremental cost (AIC) method for calculating its LRMC and explain why the proposed approach, compared to the costs and benefits of alternative approaches, adequately captures the LRMC of the network
- further consider the capacity of its tariff designs to incentivise a behavioural response, including with reference to its proposed tariff communication campaign
- consider, with other Victorian distributors, in future resets or tariff trials, locational tariffs that provide solar soak periods to small businesses located in areas with minimum demand issues
- continue with and share results from the residential EV dynamic tariff trial
- consider how to better present proposed tariffs and charging parameters (including charging periods) in a combined format instead of as separate tables (i.e., consider how to combine Tables 4.1 to 4.3 with Table 4.4) to make it easier for the reader to understand.

13.3 AusNet's proposal

AusNet proposed a large suite of tariffs for its residential and commercial customers. It considered that its tariff structure statement addressed the changes taking place in the energy sector as it transitions, whilst still allowing customers, particularly residential customers, the choice of less cost reflective tariff options (i.e. flat/single rate tariffs). AusNet recognised this would slow tariff reform, but considered this approach consistent with Victorian Government policy to provide multiple tariff options for residential customers.

To encourage take up of more cost reflective tariffs by residential customers, AusNet proposed to continue to discount its residential time of use tariff by 1% each year, so that by 2031 this tariff would be on average 10% cheaper than its single rate/flat residential tariff.

In summary AusNet proposed:

- to maintain its residential single rate, legacy and seasonal time-of-use tariffs
- to introduce a solar soak period (11am – 4pm) with low usage charges in its residential time-of-use tariff
- a new opt-in two-way/export reward tariff for its residential customers (its CER tariff)
- a new 24-hour residential dedicated circuit (hot water) tariff
- to close its residential demand tariff and its residential and small business embedded network tariffs
- to maintain its small business single rate, demand and seasonal time-of-use tariffs
- continue flexibility for business customers with lower demand (<40MWh per annum) to transfer to small business single rate, time-of-use or demand tariffs

- to include a CPD charge in more of its medium and large business tariffs and refine its critical peak event calling
- to transition its medium and large business customers on single rate and time-of-use tariff structures to transitional tariffs with CPD charging parameters
- to introduce ICTs
- to extend its EV dynamic tariff trial for residential customers and its storage tariff trials.

A detailed discussion of AusNet's proposed tariff structure statement and our assessment of each element is set out in section 13.5.

13.4 Assessment approach

This section outlines our approach to assessing tariff structure statements.

The NER set out elements that an approved tariff structure statement must contain.[34]

A tariff structure statement must also comply with the distribution pricing principles (as set out in NER cl. 6.18.5 and referred to in this attachment as the pricing principles).[35]

13.4.1 What must a tariff structure statement contain?

The NER require a tariff structure statement to include:[36]

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- a description of the strategy or strategies the distributor has adopted, taking into account the pricing principle in the NER cl. 6.18.5(h), for the introduction of export tariffs including where relevant the period of transition (export tariff transition strategy)
- structures for each proposed tariff
- charging parameters for each proposed tariff
- a description of the approach that the distributor will take in setting each tariff in each pricing proposal.

A distributor's tariff structure statement must be accompanied by an indicative pricing schedule.[37]

Our preference is for distributors to structure their tariff structure statement compliance document in accordance with our standardised template.[38]

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34 NER, cl. 6.18.1A(a).

35 NER, cl. 6.8.2(d2) and cl. 6.18.1A(b).

36 NER, cl. 6.18.1A(a).

37 NER, cl. 6.8.2(d1) and cl. 6.18.1A(e).

38 AER, *Standardised TSS Compliance Template*.

13.4.2 What must a tariff structure statement comply with?

The NER require distributors to demonstrate to us how their proposed tariff structure statement complies with the pricing principles.[39]

Broadly the pricing principles require:

- for each tariff class, the revenue expected to be recovered must lie between the avoidable cost of not serving those customers and the standalone cost of serving those customers (e)
- tariffs to be based on the LRMC of providing the service (f)
- revenue collected from each tariff to reflect the total efficient costs of customers assigned to the tariff (g)
- distortions to the LRMC based price signals to be minimised (g)
- consideration of the impact on customers of proposed changes to tariffs (h)
- each tariff to be reasonably capable of being understood by retail customers or incorporated into retail tariffs (i)
- each tariff to comply with the NER and all applicable regulatory instruments (including the *Electricity Industry Act 2000 (Victoria)* and the *Essential Services Commission Act 2001 (Victoria)* (j).

13.4.3 How we assess tariff structure statement proposals

We assess tariff structure statements against the requirements of the NER and the National Electricity Law (NEL) including the pricing principles and other applicable requirements of the NER.[40] We are also required to make our decisions in a manner that will or is likely to contribute to the achievement of the NEO.[41] For tariff structure statements, we consider in particular the NEO elements of price and achievement of jurisdictional emissions reduction targets to be most relevant.

First, we consider whether a tariff structure statement includes everything it is meant to contain under NER cl. 6.18.1A(a).

Second, we assess a tariff structure against the pricing principles set out in NER cl. 6.18.5.[42] Broadly, we consider:

- tariffs must comply with the pricing principles, in a manner that will contribute to the NPO - that tariffs reflect the distributor's efficient costs of providing those services to the retail customer[43]

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39 NER, cl. 6.18.5 and cl. 6.8.2(c)(7).

40 NEL, s. 16(2). The national electricity objective is in NEL, s. 7.

41 NEL, s. 16(1)(a).

42 NER, cl. 6.18.1A(b).

43 NER, cl. 6.18.5(a), cl. 6.18.5(b), cl. 6.18.5(d).

- tariffs can vary from tariffs that comply with the pricing principles in NER clauses 6.18.5(e) – (g) (economic pricing principles) to the extent permitted under NER cl. 6.18.5(c) (in consideration of customer impacts, customer / retailer understandability and that tariffs comply with the NER and all applicable regulatory instruments).

Third, we consider whether and how a distributor's tariff structure statement contributes to the achievement of the NEO.

We also take into consideration stakeholder submissions and engagement. For the 2026–31 period our engagement with AusNet commenced several months prior to formal submission. This included observing stakeholder engagement sessions and working closely with AusNet to support its development of its tariff structure statement.

We also consider tariff structure statements against the Better Resets Handbook (the Handbook). In line with the Handbook, our expectation is that distributors should demonstrate the following elements in their proposed tariff structure statements:

- progression of tariff reform
- incorporation of their tariff strategy in their overall business plans
- significant stakeholder engagement and broad stakeholder support for their proposed tariff structures
- insight into and management of any adverse customer impacts.

The AEMC's *Access, pricing and incentive arrangements for distributed energy resources* rule change in August 2021 enabled distributors to introduce two-way pricing.[44] We have since approved two-way tariffs / export reward tariffs for New South Wales and South Australian distributors. We assess any two-way pricing proposals with regard to the AEMC's rule change and the guidance provided in our *Export Tariff Guidelines*.[45]

13.4.4 How tariff structure statements relate to broader pricing process

The tariff structure statement is the first stage of a two-stage network pricing process. The second stage is for distributors to develop and submit an annual pricing proposal to the AER. The annual pricing proposals apply pricing levels to each of the tariff structures in the approved tariff structure statement. Distributors' proposed pricing levels must be consistent with the corresponding indicative pricing levels for the relevant regulatory year as set out in the relevant indicative pricing schedule, or the distributor must explain any material differences between them.[46]

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44 Previously under the NER, distribution services involved one-way flows of electricity imported from the grid for consumption. The AEMC's rule change updated the NER to clarify that distribution services can be two-way. That is, they include both the 'import' of energy from the grid for consumption and 'export' of energy, such as rooftop solar, to the grid.

45 AER, *Export Tariff Guidelines,* May 2022, updated October 2024.

46 NER, cl. 6.18.2(b)(7A).

13.5 Reasons for draft decision

In this section we outline the reasoning for our draft decision for each customer group as well as discussing our assessment of some specific tariff issues. It is structured as follows:

- Overall assessment against the pricing principles
- Stakeholder support for AusNet's tariff structure statement
- Small customer tariffs (residential and small business)
- Two-way tariffs (AusNet's opt-in CER tariff proposed for residential customers only)
- Medium and large business customer tariffs
- Individually calculated tariffs for very large customers
- Grid-scale storage tariffs
- Long run marginal cost methodology
- Allocation of residual costs.

Assignment to tariff classes and tariff structure statement of completeness are discussed separately in 13.7 and 13.8 respectively.

13.5.1 Overall assessment against the pricing principles

- AusNet's proposed tariffs do not sufficiently demonstrate compliance against all of the pricing principles in NER cl. 6.18.5 (e) to (j).
- AusNet demonstrated compliance with the following pricing principles (**d)** – (the NPO) tariffs reflect the distributor's efficient costs of providing direct control services to retail customers **(e)** – that revenue from each tariff class lies between stand-alone avoidable costs, **(i)** – tariffs can generally be understood by retail customers or incorporated by retailers into retail offers[47] and **(j)** – that tariffs are generally consistent the NEL and the NEO.
- AusNet did not demonstrate compliance with principle **(f)** – while AusNet based its tariffs on a calculated LRMC (long run marginal cost), it used 5-year forecasts for its calculation rather than a time horizon representative of long-run. This is explained further in section 13.5.8.
- AusNet did not demonstrate compliance with principle **(g)** – it did not systematically explain its process for allocating residual costs to each tariff. AusNet subsequently provided further information in responses to information requests.[48] We consider further explanation of residual cost recovery should be included in its revised tariff structure statement.

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47 Noting submissions from Origin Energy and the Electric Vehicle Council that query the complexity of import and export seasonality in proposed CER tariffs.

48 AusNet, *Information Request AusNet #018 – TSS*, May 2025; AusNet, *Information Request AusNet #038 – TSS*, June 2025.

- AusNet also did not demonstrate complete compliance with principle **(h)** – there are parts of AusNet's tariff structure statement that should or could include further network bill impact analysis although we consider it has been provided via responses to information requests.[49] We consider the information should be included in its revised tariff structure statement. Network bill impact analysis is discussed throughout section 13.5.

13.5.2 Stakeholder support for AusNet's tariff structure statement

Customer input is important in developing tariffs since their ultimate objective is to influence consumer behaviour. We observe AusNet has generally engaged well with stakeholders in developing its 2026–31 tariff structure statement. More generally, we observe that AusNet's consumer consultation processes have improved over successive resets and the Handbook, published in 2021, supports this improvement. The Handbook encourages network businesses to better engage with stakeholders and have consumer preferences drive the development of regulatory proposals.

We acknowledge the challenge for distributors to engage consumers on network tariffs they will not see directly, that may be complex and not structured for consumer understanding. When it comes to customers' experience, it is the retailer's role to develop and communicate retail tariffs that are appealing and understandable, appropriate to their customers' circumstances and incentivise customer behaviour to support efficient use of the network. That is, to reduce the network bill the retailer is charged for their customers' use of the network).

We consider stakeholders largely supported AusNet's proposed tariff structure statement. This included support for AusNet's withdrawal of its residential demand tariff,[50] the introduction of a solar soak period from 11am – 4pm in its residential time-of-use tariff and the continued discounting of the residential time-of-use tariff relative to single rate tariffs so as to encourage customers to opt-in to time-of-use pricing.[51] AGL supported AusNet's proposal to assign residential customers with dedicated circuits to its new 24 hour dedicated circuit tariff and AusNet's neighbourhood storage trial tariff.[52]

Two submissions noted issues with AusNet's proposed CER (export charge and reward) tariff and are discussed in more detail in section 13.5.4.

13.5.3 Small customer tariffs

Our draft decision is to approve AusNet's small customer assignment policies and tariff structures, and to approve the proposed new 24-hour dedicated circuit tariff. However, we are not approving the proposed opt-in CER tariff. We discuss our consideration of AusNet's proposed opt-in CER tariff, which introduces two-way pricing for residential customers for the first time in AusNet's distribution network separately in section 13.5.4. We also require

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49 AusNet, *Information Request AusNet #018 – TSS*, May 2025.

50 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 1; AGL, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 3.

51 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 1.

52 AGL, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 2.

AusNet to include further network bill impact analysis of changes to its residential tariffs, and encourage further bill impact analysis for small business customers.

For small customers AusNet proposed to:

- update its residential time-of-use tariff to include a very low-priced solar soak period (11am-4pm)
- continue to discount its residential time-of-use tariff by an additional 1% per year relative to the single-rate tariff so that by 2031, the time-of-use tariff will be on average 10% lower than single-rate tariff
- introduce a new opt-in CER tariff for residential customers (see section 13.5.4)
- extend the duration of its residential customer EV dynamic tariff trial
- introduce a new dedicated circuit (hot water) tariff for residential customer and remove some existing dedicated circuit tariffs
- withdraw its residential demand tariffs and its residential and small business embedded network tariffs
- build in a step change to its opex to uplift customer communications and tariff education to enable customers to build agency and provide trusted information to help customers make decisions about how they use electricity and how they invest in future appliances/CER.[53]

Otherwise, AusNet proposed to maintain its small customer assignment policies and suite of tariffs for its residential and small business customers.

13.5.3.1 AusNet's small customer tariff assignment policies

Our draft decision is to approve AusNet's proposal to largely maintain current tariff assignment policies for residential and small business customers, including withdrawal of some tariffs. However, we encourage AusNet to engage with retailers and the Victorian Government on the benefits to the network of smart meter customers facing cost reflective tariffs and look to assign existing customers to default time-of-use tariffs in the 2026–31 period, including through its proposed communication plan.

AusNet's proposal

For all customers consuming < 40 MWh per annum AusNet proposed:

- new customers and existing customers who upgrade to three-phase, install or upgrade solar PV and/or batteries or install an EV charger above 3.6 kW (kilowatt), be assigned by default to its time-of-use tariffs
- 224 customers on the optional residential demand tariff (proposed to be withdrawn) be reassigned to the residential time-of-use tariff on 1 July 2026
- most customers retain the ability to opt-out to:

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53 AusNet, *Electricity Distribution Price Review – 2026-31 Regulatory Proposal*, January 2025, p. 115.

  - for residential customers, its flat tariff or the proposed optional CER tariff
  - for small business customers, its flat tariff or demand tariff
- small customers with an EV charger above 3.6 kW, as required by the OIC, *would not* be permitted to opt-out to flat tariffs. However, there is currently no formal mechanism in place to identify those customers with fast EV chargers
- customers on the following legacy tariffs will remain on these tariffs, with the option to opt-in to other eligible tariffs. These tariffs will continue to be closed to new customers:
  - residential two-rate tariff with 8am – 8pm peak window (available only to customers in rural areas with heating requirements)
  - residential and small business interval meter time-of-use and feed in tariffs.

For small business customers consuming between 40 MWh –160 MWh per annum AusNet proposed to continue to assign these customers by default to *demand* tariffs, with the option to opt-out to a time-of-use tariff (but not to a flat tariff).

AusNet has also proposed to withdraw its residential and small business embedded network tariffs as they have no customers on them.

Stakeholder feedback

Origin Energy supported the withdrawal of the current residential demand tariffs[54] and the Victorian Government maintained support for default time-of-use tariffs for new customers.[55] However, AusNet's Coordination Group recommended that AusNet continue to work with the Victorian Government to assign all small customers to time-of-use tariffs.[56] Further, the Electric Vehicle Council suggested that Energy Safe Victoria could add a checkbox to their Certificate of Electrical Safety so that an electrician can easily indicate that an EV has been installed.[57]

AER considerations

Consistent with Victorian Government policy to provide multiple tariff options for residential customers,[58] and our previous decisions that encourage tariff optionality for small customers, AusNet proposed to retain a choice of offerings for its small customers. In the context of the Victorian Government's position against mandatory assignment to cost reflective tariffs, we accept AusNet's small customer assignment. This approach has some benefits as it provides the opportunity for customers to choose a tariff to suit their purposes and manage bill impacts.[59]

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54 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 1.

55 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025, p. 9.

56 AusNet Reset Coordination Group, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 10.

57 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 6.

58 Electricity Industry Act, *Advanced Metering Infrastructure (Retail and Network Tariffs) Order,* 16 June 2021.

59 NER, cl. 6.18.5(h).

Further, AusNet's approach to tariff assignment (which is largely unchanged from the current period) does target those customers most likely to respond and benefit from more cost reflective tariff structures. AusNet does this, for example, by proposing to automatically assign small customers upgrading to solar or installing batteries to the default time-of-use tariff, and not allowing customers with fast EV chargers the option to opt-out of cost reflective tariffs). On the latter point, we note that there is currently no formal mechanism in place to identify customers with EV fast chargers but that the Victorian Government expects a formal mechanism to be introduced within the 2026–31 period.[60] We encourage the distributors and the Victorian Government to give weight to the Electric Vehicle Council's submission on this to expedite assigning small customers with EV fast-chargers to cost reflective tariffs. [61]

We also accept AusNet's proposal to reassign customers currently on its residential demand tariff, which it proposed to withdraw, to its residential time-of-use tariff. AusNet estimated 92% of customers currently on the residential demand tariff will be better off reassigned to the time-of-use tariff.[62] We consider withdrawal of the residential demand tariff is acceptable because most affected customers would be better off if reassigned to a different tariff, residential customers will continue to be offered a choice of network tariff, and removal is supported by stakeholders. We support that AusNet proposed to update and extend its residential dynamic EV tariff trial as an additional tariff option. We approve AusNet's proposal to close its residential and small business embedded network tariffs that have zero customers from 1 July 2026. We agree with AusNet that the closure will help simplify its small customer tariff offerings, making AusNet's tariff offerings easier for its customers and retailers to understand.

However, we encourage AusNet to engage with retailers and the Victorian Government on the benefits to the network of more smart meter customers facing cost reflective tariffs, the perceived and real bill impacts (short and long-term) of more customers being assigned to cost reflective network tariffs, and to further encourage existing customers on flat tariff structures to move to the more cost reflective time-of-use tariffs. We consider that further encouraging small customers or their retailers to opt-in to cost reflective network tariffs would better reflect the NPO (as more customers would be assigned to tariffs that better reflect AusNet's efficient costs of providing services to them).[63] We also encourage AusNet's to include more information in revised proposals on how its proposed education campaign will encourage take up of these tariffs in the 2026–31 period.

13.5.3.2 Tariff design and charging parameters (not including dedicated circuit tariff)

Our draft decision is to approve AusNet's small customer tariff structures (i.e. charging parameters and charging periods). We consider AusNet's small customer tariff structures respond to its network circumstances, feedback from stakeholders and are capable of being understood by customers and incorporated by retailers under NER cl. 6.18.5(i). We also

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60 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025, p. 12.

61 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 6.

62 AusNet, *Information Request AusNet #018 – TSS*, May 2025.

63 NER, cl. 6.18.5(d).

encourage AusNet and the other Victorian distributors to consider in future resets or tariff trials, locational tariffs that provide solar soak periods to small businesses located in areas with minimum demand issues.

AusNet's proposal

AusNet proposed minimal changes to its current small customer tariffs. In summary it proposed to:

- include a low-priced solar soak period between 11am – 4pm in its residential time-of-use tariff and to reduce the peak and off-peak charging periods accordingly

Table 13-1 compares proposed 2026–31 and approved 2021–26 tariff structures (not including those tariffs proposed to be withdrawn).

Table 13-1 Residential and small business tariff structures

Tariff	2021 – 26 tariff structures	2026 – 31 proposed
Residential and small business flat	Anytime energy charge Daily supply charge	No change
Residential time-of-use (default)	Daily supply charge Peak charge 3pm – 9pm Off-peak charge 9pm – 3pm	Daily supply charge Peak charge 4pm – 9pm Off-peak charge 9pm – 11am Solar soak charge 11am – 4pm
Small business time-of-use (default)	Daily supply charge Peak charge 9am – 9pm (weekdays) Off-peak charge all other times	No change
Small business demand	Daily supply charge Anytime energy charge Demand charge 3pm – 9pm (weekdays, seasonal)	No change
Small business snowfields[64]	Peak charge 1 May to 30 September Off-peak charge all other times	No change
Small business >40 MWh[65] (default)	Peak charge 7am-11pm Monday to Friday Demand 3pm-9pm Monday to Friday, peak season December to March, off-peak all other months	No change

64 This tariff is only available to customers in AusNet's alpine region.

65 Small business>40MWh per annum includes AusNet's two-rate demand tariff and two-rate demand feed-in tariff.

Tariff	2021 – 26 tariff structures	2026 – 31 proposed
	Off-peak charge all other times	

Source: AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, pp. 17-18.

AusNet proposed no changes to its legacy residential and small business interval tariffs, which include interval time-of-use, interval meter low peak time-of-use, and interval meter time-of-use solar installation feed-in tariffs. These legacy interval tariffs are closed to new customers.

Stakeholder feedback

Submissions from Origin Energy and the Victorian Government supported the solar soak period proposed by all Victorian distributors for residential customers.[66] Stakeholders at the third joint Victorian distributor workshop also supported the simplicity of the proposed time-of-use tariff with a solar soak period, but acknowledged it might be unfair for those customers who cannot shift behaviour.[67] The Consumer Challenge Panel (CCP32) recognised that AusNet's coordination group supported AusNet's proposed residential time-of-use tariffs and consistency across the Victorian distributors.[68]

CCP32 however also questioned AusNet's justification for not proposing CER or solar soak tariffs for small businesses.[69] It noted that in response to the small business consultation paper jointly published by the Victorian distributors,[70] several stakeholders suggested the distributors could consider solar soak periods for small and medium business customers.[71]

AER considerations

Since 2021, the Victorian distributors have jointly proposed, and received support from their stakeholders for, consistent State-wide residential and small business tariff structures and charging windows. We acknowledge that State-wide tariff structures are less cost reflective than if they reflected each of the 5 Victorian distributors' network specific conditions. However, we consider that reduced locational cost reflectivity is a reasonable trade-off for the increased consistency achieved through broad alignment. The proposed consistent approach has continued stakeholder support and better enables customers and retailers to understand and respond to price signals, with consistent tariff structures, across Victoria.

AusNet's proposed charging windows reflect the congestion/constraints imposed on the network by its small customers. Its proposed solar soak, peak and off-peak charging windows for residential customers align reasonably with its residential load profiles. Figure

66 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2021-26,* May 2025, p. 1; Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31,* June 2025, p. 9.

67 Victorian distributors, *Victorian Distribution Network Service Providers Tariff Workshop 3 – Summary Report*, April 2024, p. 11.

68 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 36.

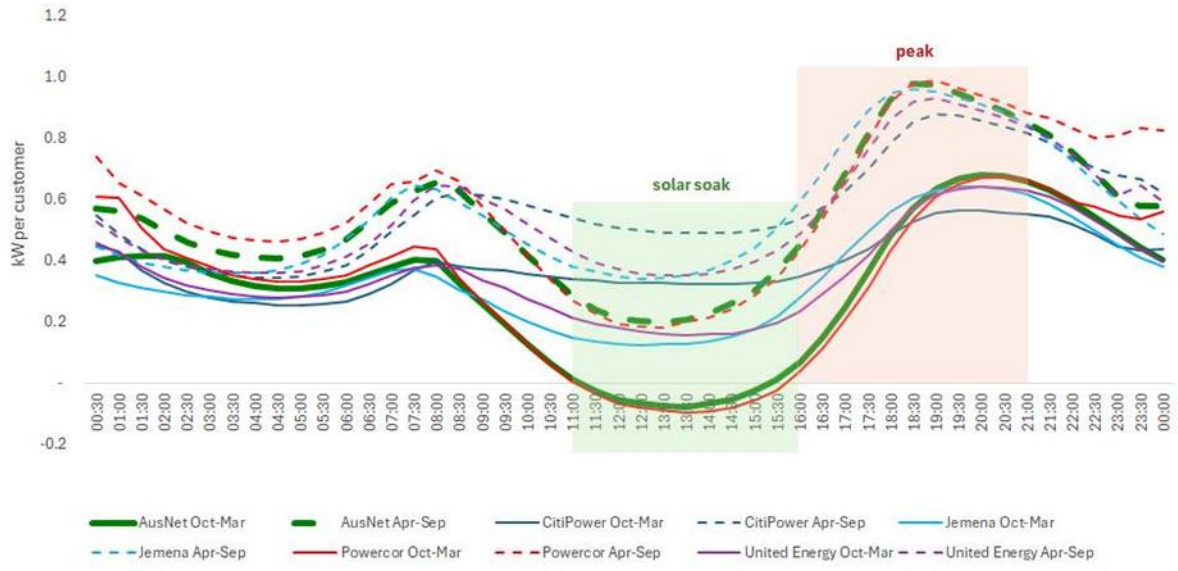
69 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 38.

70 Victorian Electricity Networks, *Small business network pricing – consultation paper*, June 2024.

71 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 38.

13-1 sets out the average day consumption profile of Victorian networks and compares them to proposed peak and solar soak charging windows.

Figure 13-1 Average day consumption profile of Victorian networks



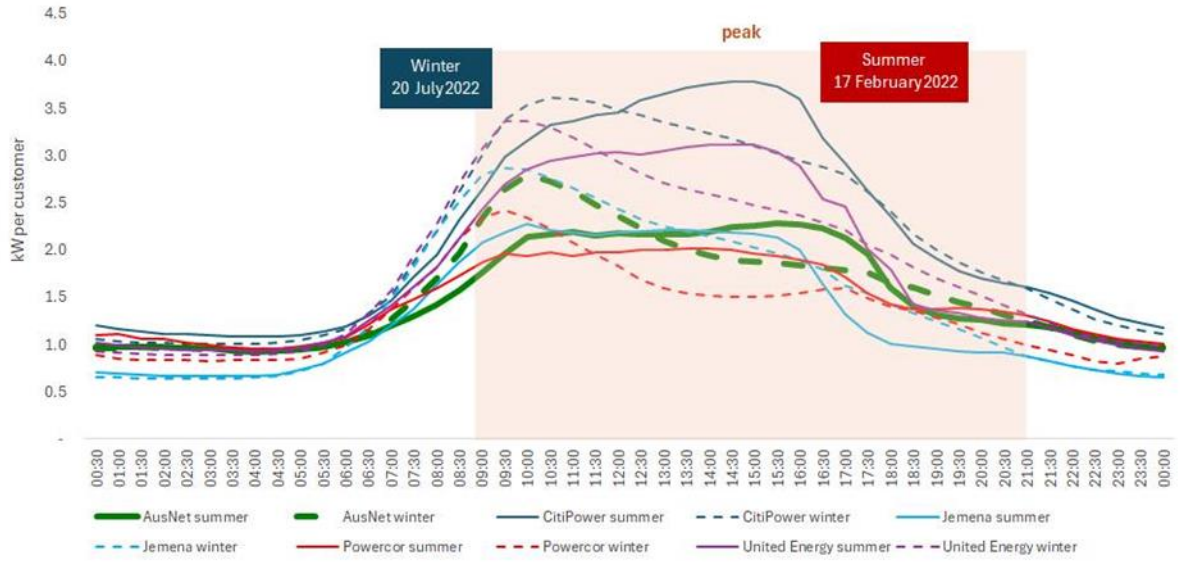
Source: AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 23, figure 4-3.

The introduction of a low-priced solar soak period in residential customer tariffs could encourage customers who can shift some of their load to the middle of the day, to do so. If enough retailers/customers respond to this price signal, it may help reduce minimum demand issues and future costs to consumers. We acknowledge the introduction of a solar soak period could enable some non-solar customers to benefit from the network export services they have paid for through historical import charges (i.e. the portion of customers on time-of-use tariffs and willing/able to shift load to the middle of the day).

We note AusNet made no changes to its proposed small business tariff structures but, like the other Victorian distributors, considered introducing a solar soak period for its small business customers and decided against doing so. In their tariff structure statements and responses to information requests,[72] the Victorian distributors considered that incentivising increased consumption through a solar soak period could exacerbate peak demand in zone substations servicing small businesses. Figure 13-2 shows the small business daily profile in all Victorian networks on weekdays, demonstrating that, consistent with proposed small business peak charging windows, small business electricity use peaks during the day.

[72] AusNet, *Information Request AusNet #018 – TSS*, May 2025.

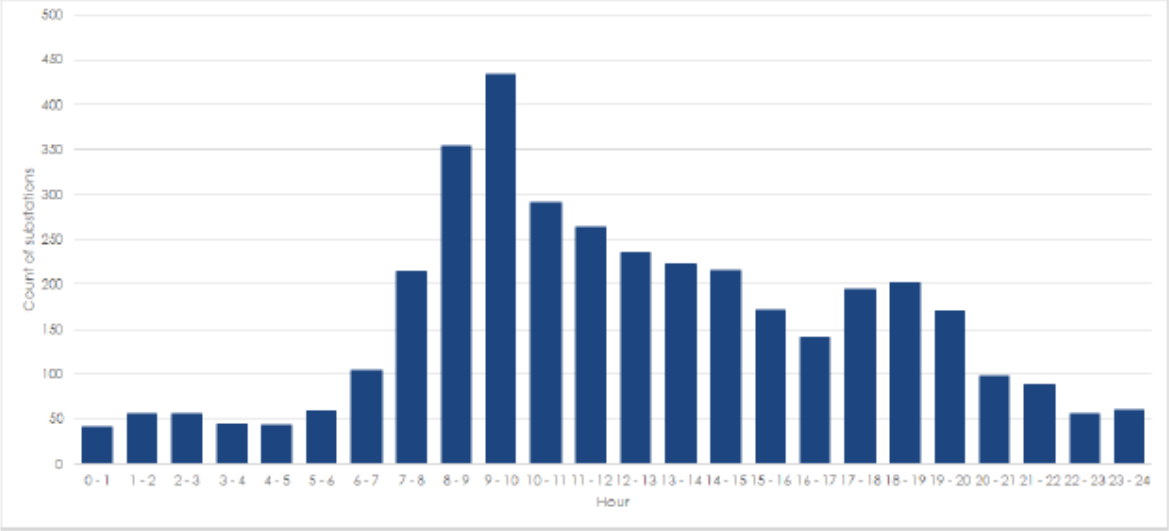
Figure 13-2 Small business maximum weekday demand



Source: AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 35, figure 4-15.

Further, Figure 13-3 demonstrates that the maximum demand of substations supplying small business customers across Victoria is highest between 7am - 8pm.

Figure 13-3 Maximum demand of Victorian substations supplying small business customers



Source: AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 35, figure 4-16.

The Victorian distributors further considered the overall diverse needs of small businesses (e.g., shops open during business hours or restaurants that open during mealtimes) and that there may, thus, be varying flexibility to respond to a solar soak period benefiting some small business customers at the expense of others without any gain in network utilisation. We concur with the view that a broad solar soak period is currently not warranted for small business customers. However, we encourage AusNet and the other Victorian distributors to consider in future resets or tariff trials, locational tariffs that provide solar soak periods to small businesses located in areas with minimum demand issues.

13.5.3.3 Price ratios and incentives to opt-into cost reflective tariffs

Our draft decision is to approve AusNet's proposed peak to off-peak price ratios for its residential and small business customer tariffs, including AusNet's proposed discounting of its residential time-of-use tariff relative to its residential single rate/flat tariff.

AusNet's proposal

AusNet's indicative tariff levels for 2026/27 continue its current approach to tariff reform. AusNet proposed to continue to discount the residential time-of-use tariff relative to the single rate/flat tariff by 1% each year in the 2026–31 regulatory period. This means that by July 2031, the residential time-of-use tariffs will be, on average, 10% lower than the single rate/flat rate tariffs. We established in previous decisions that when customers with smart meters are provided opt-out access to a flat rate network tariff, we consider it is appropriate for networks to incentivise uptake of the more cost-reflective tariff options.[73] AusNet has not proposed to apply tariff discounting to small business customers.

AusNet's peak to off-peak ratios are about 4.5:1 for its proposed residential and small business time-of-use tariffs (calculated from its proposed indicative price schedule). These price ratios are largely consistent with its current price ratios. The peak to solar soak price ratio for proposed residential time-of-use tariff is approximately 22:1.

Stakeholder feedback

Origin Energy supported tariff discounting for all Victorian distributors.[74] The Electric Vehicle Council supported sharply priced time-of-use tariffs to encourage EV usage outside of peak times.[75] However, other submissions also recommended that distributors explore further options/engagement on tariffs to encourage take-up of time-of-use tariffs.[76]

Consistent and moderate price signals are consistent with feedback from the Victorian distributors' joint tariff workshops. During the third workshop, the distributors tested with their stakeholders whether strong or moderate time-of-use price signals better met pricing objectives and could encourage customers to change behaviour, and received mixed responses. Stakeholders generally did not support lowering the peak to off-peak ratio but recognised that a weaker signal might be easier for retailers to pass on to customers. There was general support for a medium signal to support customer learning.[77]

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73 AER, *Draft Decision, AusNet, CitiPower, Jemena, Powercor, and United Energy Distribution Determination 2021 to 2026, Tariff Structure Statement*, September 2020, p. 15.

74 Origin Energy, *Submission - Victorian electricity distribution proposals 2026-31,* May 2025, p. 1.

75 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 6.

76 AusNet Reset Reference Group, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 10; Jemena Energy Reference Group, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 11; CPU Customer Advisory Panel, *Submissions on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 25 (CitiPower), p. 27 (Powercor); pp. 24 – 25 (United Energy).

77 Victorian distributors, *Victorian Distribution Network Service Providers Tariff Workshop 3 – Summary Report*, April 2024, p. 13.

AER considerations

While discounting cost reflective network tariffs relative to flat tariffs may not comply with pricing principle (g), pricing principle (c) allows tariffs to vary from the pricing principles to the extent permitted in the customer impact principle (h), to allow for transitionary measures. More broadly, we consider that incentivising take-up of cost reflective tariffs through tariff discounts and sharp peak/off-peak and peak/solar-soak ratios, contributes to the achievement of the NEO because it incentivises take up of more efficient pricing.

We acknowledge AusNet's concerns around unintended consequences. For example, retailers may request customers be reassigned to the discounted residential time-of-use tariff, but leave those customers on the single rate tariff. If this occurs, the discount for customers on the residential time-of-use tariff may not be passed through as savings by the retailer to the customer.[78] However, we consider this concern is outweighed by the value of incentivising retailers to create innovative tariffs to shape customer response, particularly in the context of customers retaining the ability to opt-out to flat tariffs.

We also consider AusNet's proposed peak to off-peak and peak to solar-soak ratios are consistent with stakeholder preferences.

13.5.3.4 Network bill impacts

Our draft decision is to not approve AusNet's small customer bill impact analysis. We require AusNet to provide network bill impact for residential customers affected by its proposed closure of its residential demand tariffs, in accordance with NER cl. 6.18.5(h). We require AusNet to provide this information to enable stakeholders to better understand the impact potential tariff changes have on them per NER cl. 6.18.5(i). We *encourage* AusNet to provide network bill impact analysis for customers changing their small business tariffs to further incentivize the take up of cost reflective network tariffs.

AusNet's network bill impact analysis demonstrates that 78% of residential customers are better off moving from the flat tariff to the proposed time-of-use tariff and 93% of customers currently on the default time-of-use tariff will be better off on the new structure with a solar soak period.[79] Its tariff structure statement did not include analysis on the impact of proposing to withdraw its residential demand tariff. However, AusNet provided analysis in response to an information request showing that 92% of customers currently on its residential demand tariff would be better off reassigned to the proposed time-of-use tariff.[80]

AusNet did not include any network bill impact analysis on small business tariffs because it has not proposed any changes to its tariff structures or assignment policies for small businesses. However, it did provide analysis in response to an information request that there are high incentives for small business customers to move to the time-of-use tariff. For example, small business customers consuming < 10 MWh per annum would face an average

78 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 28.

79 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, pp. 25-26.

80 AusNet, *Information Request AusNet #018 – TSS*, May 2025.

bill decrease of $140 by moving from the flat tariff to a time-of-use tariff, while those consuming between 20 MWh – 40 MWh would face an average bill decrease of $1788.[81]

Stakeholder feedback

The CCP32 noted that AusNet's Tariffs and pricing panel reached an agreement that AusNet's tariff impact assessment should be more personalised, including examples of customers underpaying or overpaying based on current tariffs, and understanding the impact of 'doing nothing'.[82]

AER considerations

Distributors are required to consider the impact on retail customers of changes in tariffs in accordance NER cl. 6.18.5(h). We also consider robust bill impact information better enables retailers and customers to understand their tariffs per NER cl. 6.18.5(i). Because of this, we consider AusNet should include analysis on the impact to customers from withdrawn tariffs in its tariff structure statement. We otherwise consider that AusNet has provided clear and well presented network bill impact analysis for its residential tariffs.

We also acknowledge and accept AusNet not including small business tariff impact analysis. The NER only require distributors to consider changes in tariffs and they've proposed no changes to small business tariffs. However, we encourage AusNet to include the small business impact analysis provided in information request #018 to help retailers and small business customers understand the benefits of moving from a flat tariff to a time-of-use-tariff.

We are interested in setting more standardised network bill impact analysis expectations for the next round of tariff structure statements for all distributors. We anticipate engaging with all distributors on this in 2026.

13.5.3.5 Dedicated circuit (controlled load tariffs)

Our draft decision is to approve AusNet's proposed 24-hour dedicated circuit tariff (also known as controlled load tariffs), and reassignment of residential customers on its current dedicated circuit tariff to the new 24-hour dedicated circuit tariff. However, we require AusNet to clarify in its revised tariff structure statement that its current dedicated circuit tariff will continue to include 6 – 8 hours of supply. This is because a tariff structure statement must include tariff structures (NER cl. 6.18.1A (a)(3)) for all tariffs. We consider that this extends to minimum availability of supply for controlled load tariffs.

We also approve AusNet's proposal to continue to offer legacy dedicated circuit tariffs to residential and small business customers with basic type 6 dual register meters (capable of switching loads to overnight and over the weekend) that have been closed to new customers for many years. We encourage AusNet in its revised tariff structure statement to more clearly explain why it proposed to retain those legacy dedicated circuit tariffs.

AusNet's proposed dedicated circuit tariff has a 24-hour window of supply compared to the overnight only supply of its existing dedicated circuit tariff (11am – 7pm). AusNet's current

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81 AusNet, *Information Request AusNet #018 – TSS*, May 2025.

82 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 35.

dedicated circuit tariff customers would be reassigned to the new 24-hour dedicated circuit tariff.[83] AusNet would also retain 4 residential customer legacy dedicated tariff variations and 3 small business customer legacy tariff variations that are currently closed to new customers and only available to customers with basic type 6 meters.[84] AusNet proposed not to change prices between the old and new dedicated circuit tariffs, meaning customers will not be worse off from the change.[85] AusNet may consider allowing other flexible loads to access the dedicated circuit tariff, such as slab heating or EV charging during the 2026–31 period.[86]

AusNet's tariff structure statement does not identify the minimum supply available under the proposed 24-hour dedicated circuit tariffs. However, it confirmed in response to an information request that minimum supply will be consistent with the existing dedicated circuit tariffs (6 – 8 hours).[87]

Stakeholder feedback

AGL submitted that the Victorian distributors should introduce dedicated circuit tariffs allowing for 24-hour flexibility of supply as well as enable *retailer* scheduling of supply to controlled load circuits. AGL considers that retailer control can better align supply with wholesale costs than distributor control.[88]

AER considerations

Dedicated circuit tariffs allow distributor (or sometimes retailer) control of appliances connected to a controlled load circuit. Prices for consumption are lower than standard tariffs, rewarding customers for releasing control of flexible appliances such as hot water.

We support a combination of cost reflective tariffs and other mechanisms, such as load control, to address network needs. Dedicated circuit tariffs provide opportunities to increase network efficiency, while also appealing to consumers interested in achieving bill savings through minimal active engagement. For example, a controlled load tariff may shift flexible loads away from peak periods, such as shifting hot water loads to overnight or solar soak periods, which in turn provides savings for consumers and mitigates network constraints.

AusNet's proposed changes to its controlled load tariff can benefit its network. This includes enabling AusNet to mitigate issues of minimum and maximum demand. However, we require AusNet services to include the 6 – 8 minimum supply times in its revised tariff structure statement. Our view is that controlled load tariff supply windows and minimum supply relate to the tariff structure and charging parameters (NER cl. 6.18.1A (a)(3)). The tariff structure statements of other distributors typically include controlled load tariff supply times.

We encourage AusNet to continue consulting with stakeholders to determine whether expanding its controlled loads to other flexible loads such as slab heating and EV charging may provide further benefit. In consideration of AGL's submission, we encourage AusNet to

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83 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 4.

84 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 4.

85 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 28.

86 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 28.

87 AusNet, *Information Request AusNet #018 – TSS*, May 2025.

88 AGL, *Submission - Victorian electricity distribution proposals 2026-31*, June 2025, p. 1.

explore retailer-led control. There is evidence from SA Power Networks that retailer-led controlled load supported an approximate 27% increase in controlled load electricity usage in the solar soak period. We also encourage AusNet to make it clearer that those customers on basic 6 meters will remain on legacy dedicated circuit tariffs. [89]

13.5.4 Two-way tariffs

Our draft decision is to not approve AusNet's proposed two-way ('CER') tariff as it does not comply with all the requirements in the NER. While we support AusNet's two-way tariff in principle, we require AusNet to make the following changes in its revised tariff structure statement:

- re-calculate the export LRMC over a minimum 10-year period (for reasons discussed in section 13.5.8)
- include costs for flexible export services and supply improvements in export LRMC calculations, as well as further explanation of the forecasted avoidable costs that support export services which have been included or not included in export LRMC calculations (per NER cl 6.18.5(f))
- justify the proposed basic export level of 1 kWh/day
- include customer bill impact analysis for residential customers moving to the two-way tariff.

We also encourage AusNet to:

- include further explanation on its export reward price level
- consider including in the revised tariff structure statements further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards.

AusNet has otherwise justified its need for two-way pricing and incorporated the customer protections required by the NER,[90] for example, by including an export tariff transition strategy.[91]

We consider that two-way tariffs can contribute to the achievement of the price element of the NEO, by promoting the efficient use of electricity for the long-term interests of consumers.[92] Two-way pricing can also contribute to the achievement of the emissions reduction element of the NEO in supporting the achievement of jurisdictional emissions reduction targets (i.e., the Victorian Government's net zero 2045 target)[93], by incentivising increased self-consumption of renewables through electricity sourced from solar PV. Self-

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89 SA Power Networks, *Submission to AEMC Discussion Paper – The Pricing Review*, July 2025, p. 5.

90 NER, cl. 11.141.12; NER, cl. 11.141.13; NER, cl. 6.18.1A(a)(2A); NER, cl. 11.141.11.

91 Distributors must submit an export tariff transition strategy as part of their tariff structure statement to provide transparency about their long-term intentions to introduce or not introduce export tariffs, and to assist customers who are considering investing in DER, including rooftop solar (NER cl. 6.18.1A(a)(2A)).

92 NEL, Part 1, s.7.

93 AEMC, *Emissions targets statement*, June 2025.

consumption can help to mitigate export curtailment of both new and existing customers, thereby maximising the total amount of energy utilised from solar PV (additionally so, where it can be stored and exported into evening peak periods, displacing fossil fuel sourced generation which still dominates evening supply).

13.5.4.1 Proposed two-way tariff structure

All Victorian distributors proposed residential opt-in two-way tariffs with export and time-of-use price signals. The Victorian distributors jointly consulted on and proposed similar tariff structures as well as the same basic export level of 1 kWh/day.

The two-way tariffs' import and export charging windows align with the Victorian distributors' default time-of-use tariff structure. For example, an export charge is applied during the 11am – 4pm solar soak period when solar exports are at their peak and an export reward is applied during the 4pm – 9pm peak charging period. Export charges only apply to exports above the basic export level and only during solar soak periods.

AusNet and Jemena proposed consumption charges identical to their default time-of-use tariff. CPU were the only Victorian distributors to propose seasonal variation to import and export prices for their CER tariffs (to reflect variable seasonal peak demand levels).

All Victorian distributors proposed export charges largely based on their export LRMCs, such that export charges only recover avoidable costs attributable to the provision of export services (no residual or historical costs). For example, AusNet proposed an export LRMC of 0.43 c/kWh and therefore an export charge of 0.43 c/kWh. Apart from AusNet's export reward, the Victorian distributors' export rewards are similarly based on their respective peak import LRMCs. Table 13-2 sets out the proposed export rewards and charges.

Table 13-2 Comparison of the Victorian distributors proposed two-way tariffs

Distributor	Export charge (11am to 4pm)	Export reward (4pm to 9pm)
CPU	1 c/kWh applies *only* between September to May (non-winter months)	7 c/kWh applies *only* between December to February (summer) & June to August (winter)
AusNet	0.43 c/kWh	0.43 c/kWh
Jemena	2.7 c/kWh	13.5 c/kWh

Sources: Prices as per CPU's *SCS indicative pricing schedule 2026-27* (January 2025), to apply from 1 July 2026; AusNet's *SCS indicative pricing schedule 2026-27* (January 2025), to apply from 1 July 2026; Jemena's updated *SCS indicative pricing schedule 2026-27*, to apply from 1 July 2026.

The Victorian distributors noted the two-way tariff is likely to be of most interest to battery customers participating in Virtual Power Plants (VPPs). For example, where a retailer or aggregator has control over a home battery or EV with vehicle to home/grid capability.

AusNet and CPU indicated that for those customers with less flexible import and export capability, their two-way tariff option is unlikely to be attractive.[94]

AusNet consulted on the two-way tariff at the second and third (of 3) joint Victorian distributor workshops. AusNet identified support for an opt-in, two-way structure which targets retailers and aggregators. There was misalignment where some stakeholders considered seasonality would add complexity, cross-subsidies could emerge between battery and non-battery customers, and price signals should have stronger locational signals versus weaker non-locational signals.[95]

Stakeholder feedback

The Victorian Government supported opt-in two-way tariffs that provide incentives for retailers and aggregators to provide products which can offer value to 'prosumers' that invest in DER technologies. The Victorian Government also supported export tariffs with seasonality (such as CPU's) to reflect network costs at different times of year. However, it opposed AusNet's low export reward. The Victorian Government noted that effective adoption of DER coordination, Distribution System Operator (DSO) functions, and meaningful tariff reform, could reduce the need for command-and-control flexible load measures.[96]

The Electric Vehicle Council submitted that potential vehicle to grid (V2G) customers may not take up the CER (two-way pricing) tariffs, since access to export rewards is inextricably linked to export charges.[97] The Electric Vehicle Council stated the presence of an export charge might dissuade customers from opting-in to the CER tariff, as the standard time-of-use tariff does not contain any export charges. The Electric Vehicle Council indicated it would prefer either there be export charges on all tariffs or none, so that the export reward signal for the opt-in CER tariff is more apparent.

Origin Energy recognised that because the export tariffs are proposed to be opt-in, ensuring the tariffs are sufficiently attractive would be challenging. Origin acknowledged that while the proposed export tariffs are relatively basic, they are largely intended to introduce customers to the concept of export tariffs and progress behaviour change. Origin stated that it expects export tariffs will be refined over time as the impact of EV penetration and charging patterns and the response to proposed time-of-use tariffs becomes clearer.[98]

CCP32 considered that consultation on the CER tariff only occurred at the third (of 3) joint Victorian distributor consumer workshops. CCP32 indicated that limited options for the CER

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94 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 31; Citipower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, pp. 29-30; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025*,* pp. 29-30; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, pp. 29–30.

95 AusNet, *Tariff Structure Explanatory Statement 2026–31, January 2025*, p. 10 – 11.

96 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025, pp. 6 & 10.

97 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025 p. 1, 2 & 7.

98 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 2.

tariff were offered and discussed in the workshop and no consensus was reached on preferences.[99]

13.5.4.2 AER consideration on two-way tariffs

We are not satisfied AusNet's proposed two-way tariff complies with the pricing principles and other applicable requirements in the NER. We consider AusNet justified the inclusion of its proposed two-way tariff and that elements of the tariff structure comply with the pricing principles and are capable of acceptance. However, we do not approve AusNet's LRMC methodology (for reasons discussed in section 13.5.8.) or basic export level and consider that AusNet did not adequately consider customer bill impacts.

AusNet satisfied NER two-way pricing customer protection requirements by including an export tariff transition strategy and basic export level, although we do not consider the basic export level was sufficiently justified. For example, we do not consider AusNet's (or the other Victorian distributors') rationale for a 1 kWh/day basic export level outweighs the limited links to network intrinsic hosting capacity in its tariff structure statement and proposal.

AusNet justified the introduction of two-way pricing

Two-way pricing is not required under the NER. Its introduction is only warranted where CER, including rooftop solar, is driving or likely to drive network costs.[100] We consider Ausnet has sufficiently justified its need for two-way pricing given:

- AusNet expects CER capacity to significantly increase by 2035[101]
- poorly integrated CER may raise costs for all customers by driving a need for network augmentation, through increasing peak demand or through minimum demand compromising grid stability or voltage management issues, and
- minimum demand issues could also cause mandatory shut-off of exports through emergency backstop mechanisms, or load shedding.[102]

Export LRMC and proposed export tariff charge/reward levels

We consider AusNet's export LRMC methodology does not adequately reflect the incremental costs attributable to the provision of export services (per NER cl 6.18.5(f)). For example, AusNet's costs of providing flexible (export) services have not been included in its export LRMC calculation.[103] AusNet stated that flexible services would primarily address peak import demand. However, this is not consistent with the proposed business case included in AusNet's proposal, in which the primary use case is stated as being for flexible *export* services (with flexible imports still untested). As such, we require that AusNet include these costs in a revised export LRMC methodology.

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99 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 36.

100 AER, *Export Tariff Guidelines*, May 2022, updated October 2024.

101 We consider Ausnet's reference to 'increasing CER capacity' means the increasing size of battery and rooftop solar installations, as well as increased take up of CER.

102 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 30.

103 AusNet, *Demand driven augex (LV augmentation) BC*, January 2025, p. 5.

Additionally, as forecast expenditure was only provided at an aggregate level in the export LRMC model, we require AusNet to provide in its revised proposal greater disaggregation and explanation of the costs included to derive the export LRMC. For example, it is not apparent in AusNet's proposed tariff structure statement how any double counting has been avoided in estimating and allocating the LRMC between export and consumption services.[104] We encourage AusNet to consider section 5.1 of our *Export Tariff Guidelines* when considering the costs and information to include in its revised export LRMC methodology.

We consider other elements of AusNet's two-way tariff are acceptable. The proposed two-way tariff structure (export charge/reward windows) aligns LRMC recovery with peak export and demand times when the costs to support distribution services are highest, and therefore, contributes to recovering revenue consistent with NER cl 6.18.5(f). AusNet's approach to setting export charges based on export LRMC is also consistent with the pricing principles that tariffs must reflect efficient costs (NER cl. 6.18.5(g)).

AusNet's export rewards, as well as other Victorian distributors', are lower than their corresponding peak consumption price. We consider customers may therefore be incentivised to consume their own energy first during peak periods rather than exporting it. CPU and Jemena proposed export rewards that more closely reflect *peak import* LRMC, whereas AusNet proposed an export reward that mirrors its export charge and *export* LRMC.

One stakeholder considered AusNet's export reward was too low.[105] Our *Export Tariff Guidelines* provided distributors the flexibility to consider tariff designs that are suitable for their network and customer needs. We have not, therefore, suggested what an appropriate export reward level may be, rather that each proposed export tariff component should be justified and supported with clearly evidenced impacts. We encourage AusNet to provide further information in its revised proposal on its proposed export reward level, including how the price signal has been considered against customer opt-in incentives/bill impacts, potential cross-subsidies, and network cost-reflectiveness.

Further explanation of 1 kWh/day basic export level required

We do not approve AusNet's proposed basic export level at this stage as we consider insufficient information was provided in AusNet's tariff structure statement for us to be able to assess it against NER cl. 11.141.13(b). We require this information be provided in revised proposals. We encourage AusNet to consider section 6.2 of our *Export Tariff Guidelines* regarding the information that should be included when proposing a basic export level.

We assess two-way tariffs largely the same way as we assess consumption-based tariffs (as set out in section 13.4 of this draft decision, in terms of how we assess tariffs in general). In addition, our *Export Tariff Guidelines* provide (non-binding) information and guidance about the process for DNSP development and AER approval of two-way (export) tariffs.[106] However, there are additional clauses in the NER that we are required to consider when assessing two-way pricing tariffs. In particular, for each proposed export tariff, distributors

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104 AER, *Export Tariff Guidelines*, May 2022, updated October 2024, p. 14.

105 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025, p 10.

106 NER, cl. 6.8.1B.

must provide a basic export level or the manner in which the basic export level will be determined (NER cl. 11.141.13(a)(1)).

The *AEMC's Access, pricing and incentive arrangements for distributed energy resources Final Determination* considered that all export tariffs should have a basic export level for two regulatory periods after the rule change, so customers who export could benefit from the network capacity they are already paying for through consumption charges.[107] This reflects the base level of export capacity that all networks currently provide, as network assets constructed to supply load have an inherent capacity to support some reverse power flow without any additional investment.

Per NER cl.11.141.13(b)(1)(i) and (ii), in assessing proposed basic export levels we must have regard to them being set *having regard to*:

(i) the export capacity of the distribution network (or part thereof) to the *extent it requires minimal or no further investment* − the network's intrinsic hosting capacity, and

(ii) expected demand for export services in the distribution network (or part thereof).

At this stage, we do not consider that AusNet has provided enough information to allow us to *have regard* to the basic export level being set having regard to NER cl.11.141.14(b)(1).

The Victorian distributors jointly adopted the lowest basic export level.[108] AusNet did not explain the calculation of its basic export level, nor did it make a link in its tariff structure statement between its intrinsic hosting capacity and proposed basic export level. In its broader regulatory proposal, AusNet calculated a forecast net export hosting capacity of 2,133 MW in 2027, but did not determine an associated per customer allocation.[109] It is not apparent whether AusNet's proposed basic export level included having regard to intrinsic hosting capacity, and therefore there is insufficient information for us to have regard to NER cl.11.141.14(b)(1)(i).

Network bill impacts unclear

AusNet did not include analysis on the network bill impacts of its residential two-way tariffs. We require AusNet to provide this information in its revised proposal. We encourage AusNet to consider Section 5.2 of our *Export Tariff Guidelines*. For example, bill impact analysis should demonstrate how customers who change *or* do not change their network use would be affected by the proposed two-way pricing options. Further, bill impact analysis should show the impact to customers from whom revenue is recovered to fund export rewards. Part

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107 AEMC*, Access, pricing and incentive arrangements for distributed energy resources Final Determination*, August 2021, p. 101. This requirement is reflected in NER, cl. 11.141.12.

108 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 9; Jemena Electricity Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 24; CitiPower, *Tariff Structure Statement 2026–31 – Explanatory Statement,* January 2025, p. 24; Powercor, *Tariff Structure Statement 2026–31 – Explanatory Statement,* January 2025, p. 24; United Energy, *Tariff Structure Statement 2026–31 – Explanatory Statement,* January 2025, p. 24.

109 AusNet, *CER Enablement Business Case*, January 2025, p. 8.

of the AEMC's considerations for export tariffs were that customers deriving most benefit from exports would pay the most for export services.[110]

We encourage AusNet to consider including in revised tariff structure statements further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards. Part of the AEMC's considerations for two-way tariffs were that customers deriving most benefit from exports would pay the most for export services.[111]

Observations on AusNet's export tariffs make progress on recovering costs equitably

Although they remain opt-in, the Victorian distributors' two-way tariffs make some progress on a more efficient and equitable integration of CER into the electricity grid and comply with the pricing principles. For example, the proposed export charge increases the recovery of the costs of hosting solar from those customers who are contributing to those costs. AusNet's assignment policy has been driven by the Victorian Government.[112]

Unlike the tariffs we approved for NSW distributors and SA Power Networks, the Victorian distributors' two-way tariffs are optional and are not intended to recover or materially influence the costs of future export-related services. Their purpose appears primarily to encourage greater exports into evening peaks and encourage self-consumption during the solar soak period.[113] For example, Jemena explained:

> "Given the early stages of adoption, the low export LRMC rate, consumer hesitancy and a lack of customer familiarity, along with the fact that this is an opt-in tariff, we do not expect that the uptake or incentives in these tariffs will have a material impact of the level of distribution network investment in the next regulatory period." [114]

Due to the limited cost recovery expected from the two-way tariff export charges, AusNet and the other Victorian distributors have (effectively) proposed to recover most of the costs of providing export services in the 2026–31 period from all customers. The Victorian distributors consider that providing a solar soak period with low consumption charges (accessible in the default residential time-of-use tariff) reduces the cross subsidy between customers with and without solar.[115]

We do not consider a solar soak period a substitute for recovering the cost of providing export services from those customers directly benefiting from the services. All customers are paying for the cost of providing export services when they are socialised through consumption tariffs. However, the solar soak period directly benefits only a portion of those

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110 AEMC, Access, pricing and incentive arrangements for distributed energy resources *Final Determination*, August 2021, p. 160.

111 AEMC, *Access, pricing and incentive arrangements for distributed energy resources (2021) Final Determination,* August 2021, p. 160.

112 AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 30.

113 Jemena Electricity Networks*, Tariff Structure Statement Compliance document 2026-31,* January 2025, p. 23; CitiPower*, Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 26.

114 Jemena Electricity Networks*, Tariff Structure Statement Compliance document 2026-31,* January 2025, p. 23.

115 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 24.

customers, that is, those on time-of-use tariffs and who are willing and able to consume, or shift consumption, to the middle of the day.

The Electric Vehicle Council's preference for no export charge (if one is not included in all tariffs) is relevant to this point. The AER supports (and encourages) two-way tariffs that are sufficiently attractive to encourage customers to opt-in and we accept the Electric Vehicle Council's view that export charges may dissuade some customers from opting in to these tariffs. However, our assessment also considers whether these tariffs recover the costs of providing export services from the customers who benefit from the services and a two-way tariff with a reward and no charge would not achieve that objective. An export charge signals that exports in the middle of the day can contribute to export costs, just as an export reward signals that exports during peak demand periods can benefit the network. We acknowledge the limitations of the cost recovery for export services when two-way tariffs remain opt-in but accept AusNet's alignment with the Victorian Government's position on this.

13.5.5 Medium and large business customer tariffs

Our draft decision is to approve AusNet's proposed tariff *structures* and customer assignment policy for its medium and large business customers. This is because the proposed tariff structures and assignment policies are consistent with NER cl. 6.18.1A(a)(3) and (4)) and NER cl. 6.18.1A(a)(2). However, we require AusNet to provide customer impact analysis in its revised tariff structure statement for those customers reassigned from legacy single rate or time-of-use tariffs to transitional CPD tariffs, consistent with NER cl. 6.18.5(h).

13.5.5.1 Proposal

AusNet proposed to maintain its current medium and large business tariff structures and assignment policy, except for:

- closing several time-of-use and single rate medium and large business tariffs and reassigning affected customers to proposed transitional CPD tariffs
- updating CPD event calling parameters by replacing the (current) fixed 5 CPD days with a minimum 2 CPD days and option to call up to 5 CPD days
- introducing optional ICTs for very large customers (discussed in 13.5.6).[116]

Proposed tariff structures

AusNet's proposed medium and large business tariff structures include: fixed charges ($/per year); capacity charges ($/kVA[117]/per year); CPD charges ($/kVA/ per year); peak, shoulder and off-peak usage charges ($/kWh).

The general charging periods for AusNet's proposed tariffs are summarised in Table 13-3, with some variations from these for its snowfields and embedded network tariffs.

116 AusNet, *Tariff Structure Explanatory Statement 2026–31,* January 2025, p. 34.

117 Kilo-volt amps (kVA).

Table 13-3 Summary of charges for medium and large business customers

Tariff class	Peak usage period	Critical peak demand period	Shoulder usage period	Off-peak
Medium	4pm-9pm Mon-Fri	3pm-7pm on days nominated in advance	10am-4pm Monday to Friday	All other times
Large	7am-10am, 4pm-11pm Monday to Friday	3pm-7pm on days nominated in advance	10am-4pm Monday to Friday	All other times
High voltage and sub-transmission	7am-11pm Monday to Friday	3pm-7pm on days nominated in advance	n/a	All other times

Source: AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, pp. 19-21.

Proposed customer assignment

AusNet's proposed tariff assignment for medium and large business customers is based on the size of the customer's load and the voltage level to which the customer is connected and is summarised in Table 13-4. Medium business tariffs apply to customers with annual consumption between 160 MWh and 400 MWh per annum. Large business tariffs apply to loads above 400 MWh per annum and are differentiated by load and voltage level.

Customers located in the snowfields, or within an embedded network could request to be assigned to AusNet's medium snowfields and embedded network tariffs.

Those customers affected by the closure of AusNet's legacy time-of-use and single rate tariffs would be reassigned to proposed transitional CPD tariffs.

Table 13-4 Summary of medium and large business customer assignment

Tariffs	Assignment	Tariff options (upon request from retailer)
CPD demand	New customers All existing customers remain	Snowfields[118] seasonal time-of-use for alpine region
CPD demand transition	All existing single rate/dedicated circuit and legacy TOU customers	CPD demand
Snowfields seasonal time-of-use	All existing customers remain	CPD demand
ICC[119] locational CPD	New HV and sub-transmission customers	CPD demand

Source: AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, pp. 28-29.

Stakeholder feedback

We received only one submission on medium and large business tariffs. CCP32 submitted that it was not aware of any joint distributor engagement with customers consuming >40 MWh per annum. CCP32 commented that it understood AusNet had discussed tariffs one-on-one with such customers but that they had no visibility into those discussions.

13.5.5.2 AER considerations

Our draft decision focuses on AusNet's proposed changes to its medium and large business tariffs and assignment policies for the 2026-31 regulatory period.

Tariff structures

AusNet's proposed tariff structures for its medium and large customers, which nearly all include a CPD charge (and which AusNet proposed to extend to more customers), are highly cost reflective and effective in targeting peak demand constraints.

CPD charges encourage customers to reduce demand on anticipated high load days and reward customers with a reduced charge for a successful response. We observe AusNet's current CPD tariffs are successfully incentivising a retail customer response which is helping AusNet manage peak demand on its network on critical peak days. Based on AusNet's proposed tariff structure explanatory statement we estimated total reduction in demand on days called as CPDs between 2021/22 to 2023/24 to be between 355 MVA and 515 MVA. In the first year 233 customers cut their demand to zero and 7,136 reduced their demand by more than 5% on called days. In the second year those reductions were achieved by 354 customers and 6,781 customers respectively and in the third year 393 customers and 7,232 customers. We consider AusNet's proposed medium and large business tariffs by

118 AusNet's snowfields tariff is available to customers in AusNet's alpine region.

119 Individually calculated customer.

encouraging a reduction in demand on critical peak days promote efficient use of electricity services and supports achievement of the NEO.[120]

Charging windows

AusNet's proposed charging periods for medium and large business customers, under which, most customers are charged the peak and shoulder prices between the hours of 7am and 11pm, reflect the times of peak network utilisation by these customers. However, we encourage AusNet to continue to monitor network utilisation of its medium and large business customers and to consider for future regulatory periods whether any changes to or narrowing of its charging periods could better target times of network constraints.

We note AusNet considered introducing a solar soak period for its medium and large business customers but decided not to for several reasons. Principally that maximum demand at most substations supplying medium and large business customers is typically highest between 8am – 4pm and a solar soak period, therefore, would not be an accurate network pricing signal. We support AusNet's view, and in addition note that minimum demand constraints (which the proposed residential solar soak period seeks to address) are mainly at the low voltage (LV) level (and so not at the high voltage (HV) and sub-transmission network levels).

Critical peak demand event calling parameters

AusNet proposed to call a minimum of 2 and maximum of 5 CPD days during the CPD season (instead of its current fixed 5 days). In considering this change AusNet demonstrated it had considered stakeholder feedback and weighed up the benefits and costs of changing its CPD event calling parameters. AusNet is currently calling days when it does not need to manage peak demand just to meet the 5-day requirement.[121] While the 2-day minimum would create some uncertainty for customers in knowing how many days would be called, AusNet considered the benefits of calling CPDs only as required outweighed this uncertainty.

We support AusNet's conclusion that sending CPD signals only on hot summer days when it is warranted, avoids the imposition of a CPD event on customers when it is not needed. The proposed change would better align CPD charges to critical peak days. We consider this improved alignment of CPD charges to critical peak days supports a more efficient use of the network and promotes achievement of the NEO.[122]

Closure of legacy tariffs

AusNet proposed to close seven legacy time-of-use and single rate tariffs and reassign affected customers to proposed transitional CPD tariffs. To manage potential bill impacts, AusNet set the capacity and CPD charges of its transitional tariffs to zero in the first year of the regulatory period. AusNet proposed to increase charges by 20% of the corresponding

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120 NEL, s 7.

121 AusNet, *Tariff structure explanatory statement 2026-31*, January 2025, p.34 - Analysis provided by AusNet showed that in all of the previous 5 CPD seasons, at least 1 or 2 CPD days were not necessary, as these fell on mild days and were called only to satisfy the 5-day requirement. Excluding mild days, an average of 3.6 days would have been called per CPD season in the last 5 CPD seasons.

122 NEL, s 7.

standard CPD tariff in each subsequent year (reaching 100% by the start of the 2031-36 regulatory period). We consider AusNet has demonstrated consideration of bill impacts on customers.[123] Table 13-5 sets out the estimated bill impact of transitioning customers.

Table 13-5 Customer bill impact of analysis of transitioning customers

Legacy tariff	New tariff	2026-31 average bill impact predicted over 5 years better off (-) /worse-off (+)	% customers worse off
Medium single rate	Transitional medium CPD	-$38,368	0%
Medium single rate and dedicated circuit		-$49,362	0%
Medium two rate		-$16,749/ $159	2%
Medium 7 day two-rate		-$3,420/ $1,216	33%
Large two-rate	Transitional large CPD	-$88,989/ $2,023	8%

AusNet, *Information Request AusNet #018 – TSS*, 6 May 2025.

We observe while some customers are worse off, most are better off. Those worse off, are on average worse off between $1,000 and $2,000 per annum. We note AusNet's analysis assumes no behaviour change. However, as AusNet proposed to continue to educate its medium and large customers and retailers on its updated CPD program we expect more customers will find opportunities to reduce their network bills, noting that larger customers are well positioned to understand price signals and invest in energy efficient measures.

Overall, we consider the benefits of AusNet's proposed closure of legacy tariffs, which include an increased number of customers exposed to critical peak event charges, outweigh the (managed) customer impacts. A customer response to critical peak events will help reduce the need for future network augmentation, contributing to efficient investment in and use of electricity services consistent with the NEO.[124] We consider AusNet should include its customer impact modelling in its revised tariff structure statement.

13.5.5.3 Consideration of type 9 meters in tariff structure statements

We require AusNet to consider how it will incorporate new meter types in its tariff structure statement and how these new meter types relate to its proposed 'unmetered' tariff. We also require AusNet to consider whether the tariff name is fit for purpose for the 2026–31 period.

Distributors typically offer 'unmetered' tariffs for unmetered supplies which have small loads, where the connection to the network is not equipped with a physical meter and has estimated consumption (e.g. public lights and traffic lights). This load is currently 'type 7 metered load', where consumption is calculated using load tables. Within AusNet's tariff structure statement,

123 NER, cl. 6.18.5(h).

124 NEL, s 7.

its medium unmetered tariff is not explicitly linked to type 7 metering services, but we understand that unmetered supply is generally connected to type 7 metering services.

The AEMC's *National Electricity Amendment (Unlocking CER benefits through flexible trading*) Rule 2024[125] created 3 new meter types, including type 9 meters. Type 9 meters (currently and in the future) are for unmetered supply where the connected device has the capacity to measure and report the energy it consumes or exports. This could apply to 'smart' streetlighting and could also apply to kerb side EV charging. Further, type 9 metering has been defined by the AEMC to include loads up to 750 MWh per annum. Our view is that the intent of the *Unlocking CER benefits through flexible trading* Rule is not for type 9 meters to necessarily replace type 7 meters, at least not in the near future. Arrangements related to type 9 metering for assets like street lighting and kerb side EV chargers will be implemented by 31 May 2026, with most of the other rules being implemented by 1 November 2026.

However, we recognise that AusNet's existing unmetered tariff may not be appropriate for larger loads that may be type 9-metered in the future. We also recognise 'unmetered' may not be an appropriate name for this tariff to the extent that *some* currently type 7 metered load will have type 9 meters, as type 9 meters are physical meters.

We therefore require AusNet in revised proposals to include:

- further consideration of whether 'unmetered' is an appropriate name for these tariffs and includes for type 9 meters
- further explanation of larger type 9 loads that could be covered by the rule change and AusNet's proposed tariff assignment for those loads per NER cl. 6.18.1A(a)(2)
- further explanation or clarification on how the 'unmetered' tariff is consistent with our draft decision on metering (attachment 15) and service classification (attachment 11).

We consider these changes are necessary to ensure that AusNet's tariff structure statement has adequately considered the AEMC's *National Electricity Amendment (Unlocking CER benefits through flexible trading*) Rule 2024.

13.5.6 Individually calculated tariffs

Our draft decision is to approve AusNet's proposed ICTs. These respond to our 2021–26 Victorian final decision, in which we encouraged their consideration for the 2026–31 period.

13.5.6.1 Proposal

AusNet proposed ICT CPD tariffs with the same structure as its standard CPD tariffs, including that the recovery of distribution use of system (DUOS) costs would be the same as its standard CPD tariffs. However, the transmission use of system (TUOS) component of the ICT would apply at a locational level and be passed through as a fixed charge. The locational TUOS charge will be based on the customers' July to June T-2 financial year demand data.

Customers would be assigned to ICT tariffs based on:

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125 AEMC, *Unlocking CER benefits through flexible trading, Rule determination,* August 2024.

- being a new customer from 1 July 2026 and
- with a maximum demand greater than 10 MVA for HV network connections
- with a maximum demand greater than 25 MVA for sub-transmission connections.
- These customers can continue to opt-in to AusNet's regular CPD tariff.

Stakeholder feedback

We received no submissions in response to AusNet's proposed ICT tariffs.

13.5.6.2 AER considerations

AusNet's proposed ICT tariffs provide a more direct signal to customers to manage their load at times and in areas of congestion than a standard tariff which averages costs across the network. Allocating TUOS costs on a locational basis will also help reduce cross subsidies between customers in different locations of the network and provide greater incentives for new customers to connect to areas where congestion (TUOS locational prices) is lower.[126] We consider this promotes more efficient use of electricity services consistent with the NEO.[127]

AusNet's proposed customer assignment, which allows opt-in to a standard tariff for those customers who do not want to be exposed to locational TUOS price signals, demonstrates consideration of customer impact principle.[128]

13.5.7 Grid scale storage tariffs

We accept AusNet's proposal to continue to trial storage tariffs and to choose not to introduce 'business as usual' storage tariffs for the 2026–31 regulatory period.

13.5.7.1 Proposal

AusNet indicated it will continue its trial storage tariffs as it currently has few customers on its trial storage tariffs and has insufficient findings to develop a standard tariff offer.

Stakeholder submissions

We received 2 submissions relevant to Ausnet's trial storage tariffs. The Victorian Government stated that, to ensure confidence of investors, all distributors should have business as usual neighbourhood battery tariffs.[129] AGL considered all storage tariffs should be accompanied by transparent connection processes and fees as distribution owned batteries do not face the connection times and costs faced by competitive market players, although considered this particularly relevant for CPU's proposed storage tariffs.[130]

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126 AusNet, *Tariff Structure Explanatory Statement 2026–31*, January 2025, p. 40.

127 NEL, s 7.

128 NER, cl. 6.18.5(h).

129 Hon. Lily D'Ambrosio MP, Submission on Victorian Electricity Distribution Proposals 2026-31, June 2025, pp. 6, 10.

130 AGL, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 2.

13.5.7.2 AER Consideration

Batteries are becoming increasingly important as the broader energy system transitions to net zero, as well as providing opportunities to increase network utilisation and reduce network augmentation costs. The Victorian Government has identified the importance of storage to achieving its legislated renewable and net zero targets, setting a Victorian energy storage target of 2.6 GW by 2030.[131]

We consider it prudent of AusNet to continue to trial battery tariffs prior to setting a standard tariff. This will help AusNet structure its tariff to set price signals to encourage network support from batteries that may defer or avoid future augmentation needs.

In considering future standard storage tariffs we encourage AusNet to consider stakeholder feedback in designing storage tariffs and to provide clear transparent connection processes.

13.5.8 Long run marginal cost methodology

Our draft decision is to not approve the proposed LRMCs on which AusNet based its proposed tariffs. We require AusNet to calculate LRMCs based on at least a 10-year time horizon for its revised tariff structure statement. We also encourage AusNet to consider refinements/alternatives to the AIC method and to explain why it considers its proposed approach, compared to costs and benefits of alternative approaches, adequately captures the LRMCs of its network.

We consider tariffs based on 5-year forecasts are non-compliant with 6.18.5(f) of the NER. Further, while AusNet's proposed AIC method to calculate import and export LRMCs might be an acceptable methodology, we require AusNet to provide a better explanation of the forecast expenditure included in its LRMC model and explain why it considers this approach adequately captures the LRMCs of its network.

13.5.8.1 Explanation of LRMC

The NER pricing principles require that network tariffs be based on LRMC.[132] LRMC is an estimate of the future or forward-looking costs of expanding (or contracting) the network to allow for one additional (or one fewer) unit of use of the network. It is typically driven by changes in use of the network during peak periods, whether importing energy from the grid (maximum demand) or exporting energy to the grid (minimum demand).

For consumption services (the import of electricity from the grid) tariffs must be based on the LRMC of providing capacity to support the import of electricity from the grid to customers. For export services, export charges must be based on the LRMC of providing capacity to support / host exports to the grid by exporting customers.

Inputs into the LRMC calculation may include:

131 Victorian Government, *Victorian energy storage targets*, October 2024.

132 NER, 6.18.5(f).

- forecast long-run expenditure associated with incremental changes in demand for either import and export services.[133] This may comprise estimates of incremental demand driven augex, opex associated with additional capacity, and replacement expenditure (repex) attributable to incremental demand, or avoided repex in areas of the network with declining demand
- forecast demand for the shared distribution network services.

The NER require that a distributor's method(s) of calculating LRMC has regard to:

- the costs and benefits associated with calculating, implementing and applying that method as proposed;
- the additional costs likely to be associated with meeting demand from retail customers that are assigned to that tariff at times of greatest utilisation of the relevant service; and
- the location of retail customers that are assigned to that tariff and the extent to which costs vary between different locations in the distribution network.[134]

13.5.8.2 Assessment approach

Our approach to assessing LRMC involves consideration of 3 key areas:

- the overall approach or estimation method
- what costs are considered marginal and associated with changes in peak use
- what timeframe is considered long-run.

With the introduction of export tariffs, we are also focusing on how distributors have estimated export LRMCs in accordance with the expectations we set in the Export Tariff Guidelines. This includes demonstrating:

- how any double counting has been avoided in estimating and allocating LRMC between export and consumption services
- how the export charging parameters reflect the efficient export LRMC.

13.5.8.3 Proposed estimation methodology

AusNet (along with CitiPower, Powercor and United Energy and Jemena) used an AIC approach to calculate both its import and export LRMCs. Two LRMC calculations were provided, one for import services and one for export services.

The AIC method calculates the average cost of future load-driven capital investment by dividing projected demand related expenditure over a forecast period by the expected growth in demand. AusNet and the other Victorian distributors proposed forecast periods of 5 years for demand driven capex. The distributors used longer periods of between 10 and 25 years for forecast opex and forecast demand, which are also inputs into calculating LRMC.

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133 For export services, long-run expenditure forecasts are likely to comprise expenditure related to voltage constraints, thermal constraints and LV visibility needs.

134 NER, 6.18.5(f).

Stakeholder feedback

We received no submissions in response to AusNet's method of calculating LRMC.

13.5.8.4 AER considerations

In past tariff structure statement decisions, we approved timeframes of between 10 and 20 years to estimate LRMC. We noted there is no ideal, or correct, timescale on which to base LRMC estimates and that a range of timeframes would be compliant with the NER. However, we considered the timescale must be long enough to allow a significant number of factors of production to change—and a forecast horizon of at least ten years was necessary to capture the essence of 'long run'. [135]

AusNet explained its use of a 5-year forecast on the basis that "load growth is now highly uncertain, influenced by factors such as electric vehicles (EVs), battery storage, dynamic operating envelopes (DOEs), and electrification trends."[136] AusNet questioned the value of a period longer than 5 years on the basis that it may not materially change the calculation outcome.[137]

We observe that good industry practice has developed to manage the risks of uncertainty in the demand for network services. These practices explicitly consider uncertainty in demand for network services, and hence in investment needs and strategies to manage demand for network services through capital investments, as well as though operational practices and engineering standards. On this basis and consistent with previous AER decisions, we consider a forecast period of at least 10 years is the minimum horizon required to capture the essence of long run. In this draft decision we require AusNet to use a forecast period of at least 10 years in its LRMC method for its revised tariff structure statement.

Continued improvement of methods for estimating LRMC

As explained in our LRMC guidance note, our expectation is that distributors continue to refine and improve their methods for calculating LRMC.[138] LRMC calculations are of increasing importance in today's energy environment. CER is increasing the extent to which investment is a function of when, where, and how energy is managed. While AIC is an accepted and practical approach, it may be less suited to capturing the marginal cost of incremental demand in a system where investment drivers are changing due to CER, flexible load, and orchestrated demand response. We strongly encourage AusNet to improve its AIC methodology or consider other methodologies which may be better suited to today's environment. The perturbation method for example involves modelling small, hypothetical increases in demand at specific locations across a network to observe the incremental impact on network costs.

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135 AER, *Final Decision Tariff structure statements Ausgrid, Endeavour and Essential Energy*, February 2017, pp. 94-95: AER, *Draft Decision Ausgrid distribution determination 2019-24 Attachment 18 Tariff Structure Statement*, September 2023, p. 83.

136 AusNet, *Response to information request AusNet #018 – TSS*, May 2025.

137 AusNet, *Response to information request AusNet #018 – TSS*, May 2025.

138 See AER explanatory note on long-run marginal cost.

In the first round of tariff structure statements, all distributors in the NEM used AIC approach to estimate LRMC. At the time we accepted this approach but distributors were encouraged to continue to improve their estimation methods so that their tariffs better reflect efficient costs.[139] In general we recognised the costs of using approaches that better reflected efficient costs may outweigh the benefits, including because of the low penetration of smart meters (making it more difficult to send more cost reflective price signals to customers) and stakeholder support for same pricing across networks for similar customers.

In the second round of tariff structure statements, several distributors assessed the merits of alterative LRMC estimation methods.[140] In our 2021–26 tariff structure statement decision we considered CPU's approaches to estimating LRMC to be good examples of continual improvement.[141] In their 2021–26 tariff structure statements CPU used a marginal incremental cost approach. This enabled them to calculate LRMC for each zone sub-station (at each voltage level) and to incorporate repex into their LRMC estimates for parts of their networks with an expected reduced/flat load. We commended CPU on this approach and encouraged AusNet Services and Jemena to continue exploring ways to improve their methods, including to incorporate repex into their LRMC method.

In that decision we considered distributors should not adopt a default position of maintaining existing capacity levels, especially where existing networks have spare capacity and where there are changing patterns of use. When assets come to the end of their useful life, distributors have a choice of maintaining their current level of capacity, increasing capacity or decreasing capacity, depending on demand and use of the network. We noted that incorporating repex inputs into LRMC calculations could be an innovative way to balance two competing factors:

- the requirement to consider costs and demand in the long run
- the increasing uncertainty in forecasting such costs and demand conditions over longer time horizons.

In this third round of tariff structure statements AusNet (and the other Victorian distributors) did not refine their methods for estimating LRMC. Nor did they show the benefits of their chosen method compared to the costs of calculating and implementing LRMC using an improved method. This draft decision requires AusNet to incorporate longer period forecasts (at least 10 years) into its LRMC methodology for its revised tariff structure statement.

We strongly encourage AusNet to improve its LRMC methodology for both its import and export services and to provide more explanation regarding its forecast expenditure and how the proposed expenditure is related to provision of its services and forecast for its services. This should include some explanation of its underlying forecast demand driving incremental expenditure for both its import and export services.

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139 For example, see AER, *Final decision: Tariff structure statements: Ausgrid, Endeavour and Essential Energy*, February 2017.

140 See *Endeavour Energy, Tariff Structure Explanatory Statement*, April 2018. February 2017, pp. 92–93.

141 AER, *Final Decision AusNet, CitiPower, Jemena, Powercor and United Energy distribution determination 2021-26, Attachment 19 Tariff structure statement*, April 2021, p. 23.

13.6 Allocation of residual costs

Our draft decision is to require AusNet to more thoroughly explain the recovery of residual costs in its revised proposal to demonstrate compliance with NER 6.18.5(g).

13.6.1.1 Proposal

In designing tariffs AusNet stated that its variable/usage charges reflect the LRMCs of providing its electricity services, whilst the residual revenue for each tariff is recovered as a fixed charge.[142] AusNet's tariff structure statement also indicated that it allocated residual costs between the service (fixed) charge and variable charge(s) that make up a tariff through the annual pricing process.

Stakeholder feedback

We received no submissions in response to AusNet's proposed method of allocating residual costs.

13.6.1.2 AER considerations

Residual costs are those costs which are not forward-looking costs (LRMC) but which a distributor needs to recover to efficiently operate its network and provide electricity services to its customers. Residual costs can be thought of as the difference between the distributors total approved revenue and the revenue raised from tariffs based only on LRMCs.

Under the NER, the distribution pricing principles require tariffs to recover total efficient costs in a way that minimises distortions to the price signals for efficient usage that would result from tariffs based on LRMC (NER cl. 6.18.5(g)).

In practice we consider this means LRMCs are most efficiently recovered through charges which reflect peak use of the network (peak consumption charges at times of maximum demand and export charges at times of minimum demand). Residual costs are most efficiently recovered through fixed charges but a portion of residual costs are also recovered through variable charges with minimal distortion to LRMC based signals. We have observed that in general the Victorian distributors and distributors in other jurisdictions have allocated residual costs in a way to:

- manage the transition of customers to higher fixed charges over time (since fixed charges were historically relatively low)
- manage boundary issues between peak and off-peak periods to avoid the creation of new peaks immediately adjacent to existing peaks
- optimise the peak to off-peak price ration to encourage a response to network signals
- scale a portion of residual recovery to a customer's level of energy consumption (on this issue we note distributors are also considering what this means for customers with CER who are able to avoid contributions to residual costs, or who may be disincentivised from responding at times/locations of benefit to the network).

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142 AusNet, *Tariff structure compliance document 2026-31*, January 2025, p.13

AusNet's proposed approach to base its variable/usage charges on LRMCs and recover residual costs through fixed charges may be consistent with distribution pricing principles 6.18.5(f) and (g). However, AusNet's tariff structure statement included only a high-level explanation of its proposed residual cost recovery and did not sufficiently explain its process of allocating residual costs to each tariff.

In its revised tariff structure statement we require AusNet to more thoroughly explain how revenue recovered from each of its proposed tariffs reflects the total efficient costs of serving the customers assigned to it NER cl. 6.18.5 (g).

13.7 Assignment to tariff classes

Our draft decision is to approve AusNet's policies and procedures governing assignment or reassignment of retail customers to tariff classes for direct control services.[143] Table 13-6 summarises AusNet's tariff class assignment policies. AusNet has proposed no changes from the 2021–26 regulatory period.

Table 13-6 Tariff classes for AusNet

Tariff classes	2026-31 customer type and assignment
Residential	Residential customers connected to LV networks consuming <160MWh per annum
Small industrial & commercial	Industrial and commercial customers connected to LV networks consuming <160MWh per annum
Medium industrial & commercial	Industrial and commercial customers connected to LV networks consuming >160MWh but <400MWh per annum
Large industrial and commercial	Industrial and commercial customers connected to LV networks consuming >400MWh per annum
High voltage	Industrial & commercial customers connected HV networks
Sub transmission	Customers with a connected supply voltage >22,000 kV

Source: AusNet, *Tariff structure Compliance document 2026-31*, January 2025, p. 6.

13.8 Statement of completeness

AusNet must include the following within its tariff structure statement:

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- a description of the strategy or strategies the distributor has adopted, taking into account the pricing principles in clause 6.18.5(h), for the introduction of export tariffs including where relevant the period of transition (export tariff transition strategy)

[143] Linked to NER, cl 6.12.1(17).

- structures for each proposed tariff
- charging parameters for each proposed tariff
- a description of the approach that the distributor will take in setting each tariff in each pricing proposal.[144]

AusNet's tariff structure statement must be accompanied by an indicative pricing schedule.[145]

AusNet's proposed tariff structure statement incorporates each of the elements required under the NER. The key focus of our assessment for this draft decision is on whether these elements satisfy the pricing principles for direct control services in the NER. That assessment is covered in the sections above.

AusNet adopted our preferred two document approach, intended to improve the clarity for the retailers, customers and the AER:

- the first document should only include the aspects of the tariff structure statement that will bind AusNet over the 2026-31 regulatory period
- the second document should explain AusNet's reasons for what it has proposed.[146]

144 NER, cl. 6.18.1A(a).

145 NER, cl. 6.8.2 (d)(1).

146 NER, cl. 6.18.5(i).

A Appendix

A.1 Background to tariff reform and rule requirements

This is the third set of tariff structure statements developed and consulted on by the Victorian distributors since network tariff reform was introduced in 2014 following the AEMC's power of choice review.[147] In Victoria, smart meter rollout was completed in residential and small business premises in 2014.

Network tariff reform, supported by the roll out of smart meters, is a long-term microeconomic reform program aimed at reducing future network costs through more efficient use of the network. Distributors are required to make tariffs better reflect the costs of providing their network services. This is to incentivise the shifting of consumption from peak to off-peak periods, which, increasingly, is predominantly during the day rather than overnight. With the introduction of two-way pricing from 2024 onwards, those customers with generation or storage assets will also be incentivised to self-consume or to export later in the day.

The requirement for cost reflective tariffs

The NER's distribution pricing principles (referred to in this attachment as the pricing principles, as set out in NER cl. 6.18.5) require that tariffs be designed by distributors and assessed by the AER for progress towards cost reflectivity. That is, each tariff is based on LRMC applied in a way that has regard to the additional costs likely to be associated with meeting demand at times of greatest utilisation (i.e. peak periods for demand and solar soak periods for supply) and recovers the total efficient costs of providing the service. We consider an appropriate time period for long-run in the energy sector, with its long-lived assets, to be at least 10 years. Distributors' tariffs are required to comply with the pricing principles in a manner that will contribute to the achievement of the NPO – that a distributor's charges reflect its *efficient costs* of providing those services.[148] Our assessment approach is outlined further in section 13.4.

Cost reflective tariffs for small customers are generally based on how much electricity a customer uses (consumption over a period of time) and/or how much capacity the customer requires (demand-based). Time-of-use charges consist of defined charging windows during which different rates apply (e.g. peak – high price, shoulder – medium price, off-peak – low price and solar soak – very low to zero price).

A demand (or capacity) charge is based on the customer's highest measured demand for electricity during a specified period of time, typically limited to the highest demand measured during peak charging windows and measured in kW or kVA for large customers. Charging windows align with the peak demand times for the whole network or for specific customer types (e.g. residential or small business customers).

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147 AEMC, *Final Report Power of choice review – giving consumers options in the way they use electricity (Power of choice review)*, 30 November 2012.

148 NER, cl. 6.18.5(d).

Monthly maximum demand charges are not necessarily coincident with the costs driving peak demand in that they may not occur at times or locations of critical network peaks. Similarly, time-of-use tariffs have peak charging rates for all consumption during a network's generalised peak demand window which may not be the same for all locations/times and may vary with the proportion of residential, and commercial and industrial customers in each area. Solar soak charging periods are more coincident with peak generation and 'locational' in the sense that all parts of the network that have lots of roof-top solar exporting to the grid will have the same minimum demand periods. However, they too will not necessarily coincide with critical minimum demand periods during days of lower solar output or higher demand.

Nonetheless, these tariffs all send broad and consistent signals that demand during generalised network wide peak periods is a contributor to network costs in the long-run (whereas using electricity during generalised network minimum demand periods alleviates long-run network costs). This was part of the rationale that underpinned the AEMC's 2014 determination that network tariffs be based on LRMC rather than short-run marginal cost.[149] The AEMC considered LRMC provided more stable, longer term price signals that better support consumers to make decisions about household energy use and investment in long-lived appliances/CER. The AER has considered both tariff structures (demand and time-of-use) for small customers to be compliant with pricing principles requirements that tariffs be cost reflective.

Consideration of customer impacts

Customer bill impacts are an important consideration for network tariff reform. Distributors are required to provide bill impact analysis of customers moving to new tariff structures, and to consider how any adverse changes can be mitigated/managed.[150] The NER allows for tariffs with softer price signals than purely cost reflective tariffs. This is to enable a period of transition, to provide for retail customers to have a choice of tariffs, or where retail customers are unable to easily change how and when they use electricity.

One mechanism that distributors use to manage customer bill impacts is to gradually increase the cost reflectively of tariffs over time, that is, the ratio between peak and off-peak prices is initially muted but increased over time. Ultimately, all LRMC are recovered during peak periods.

Assignment policies and choices of network tariffs are also used to manage the pace of transition and customer impacts. For small customers, all distributors include a choice of network tariff (including at least one time-of-use tariff) that enable a retailer to choose a network tariff that aligns with their customers' preferences. For most distributors, policies for assignment to cost reflective tariffs have gradually shifted from opt-in to variable charge network tariffs, to default variable charge network tariffs with the ability to opt-out to flat network tariffs, and more recently, to mandatory assignment (by most distributors) to variable charge network tariffs with no ability for customers with a smart meter to opt-out to flat network tariffs. The 5 Victorian distributors and TasNetworks are the only distributors in the NEM that allow small customers with smart meters to opt-out to flat network tariffs.

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149 AEMC, *Distribution network pricing arrangements rule change*, November 2014.

150 NER, cl. 6.18.5(h).

The AER has generally considered small customer bill impacts within an analytical framework that assumes no behaviour change as the baseline, as not all customers are willing and able to adapt their use and generation behaviours.

Consideration of the National Electricity Objectives

In addition to the NER requirement that we assess that tariff structure statements progress towards cost reflectivity, the NEL requires us to make our decisions in a manner that will, or is likely to, contribute to the achievement of the NEO.[151] The NEO has been updated to include efficiency in the long-term interest of consumers with respect to achieving targets set by jurisdictions for reducing Australia's greenhouse gas emissions. For tariff structure statements, we consider the NEO elements of price and achievement of jurisdictional emissions reduction targets to be most relevant.

[151] NEL, s 16(1)(a).

Shortened forms

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AIC	average incremental cost
augex	Augmentation expenditure
Capex	capital expenditure
CCP	Consumer Challenge Panel
CER	consumer energy resources
CPD	critical peak demand
CPI	consumer price index
CPU	CitiPower, Powercor and United Energy
DER	distributed energy resources
distributor	distribution network business
DUOS	distribution use of system
EV	electric vehicle
EVC	Electric vehicle council
HV	high voltage
ICT	individually calculated tariff
kVA	kilo volt amps
KW	kilowatts
KWh	kilowatt hours
LRMC	long run marginal cost
LV	low voltage
MW	megawatts
MWh	megawatt hours
NEL	National electricity law
NEM	National electricity market

Term	Definition
NEO	National electricity objective
NER	National electricity rules
NPO	National pricing objective
NSP	Network service provider
Opex	operating expenditure
PV	photovoltaic
RAB	regulatory asset base
RBA	Reserve bank of Australia
Repex	replacement expenditure
RIN	regulatory information notice
ST	sub-transmission
TUOS	transmission use of system
VDO	Victorian default offer
V	volts