Draft decision

CitiPower, Powercor and United Energy electricity distribution determinations

1 July 2026 – 30 June 2031

Attachment 13 – Tariff structure statements

September 2025

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

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13.1 CitiPower, Powercor and United Energy and the regulatory framework for tariffs

This attachment sets out our draft decision on CitiPower's, Powercor's and United Energy's (CPU's) tariff structure statements to apply for the 2026–31 regulatory control period (2026–31 period). In this draft decision we also include background and context to tariff structure statements and 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 CPU'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 background information on the context for tariff structure statements and history of tariff reform in section 13.1.2. The background to tariff reform is discussed in Appendix A.

In summary, our draft decision is to not approve CPU's proposed 2026–31 tariff structure statements. 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 CPU should further integrate their tariff strategies into their broader regulatory proposals. In particular, by better reflecting the capacity of their 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 CPU 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) their proposed expenditure.

Further, we are not satisfied that CPU'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 CPU have adequately justified the basic export level for their proposed consumer energy resource (CER) tariffs and flexible connection tariffs.

However, we do consider, in this round of tariff structure statements, that CPU have proposed tariffs that make some progress on network tariff reform. Elements of their tariff structure statements 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 residential time-of-use tariffs; opt-in CER tariffs for

1 NER, cl. 6.12.3(k).

2 NEL, s. 7.

3 NEL, s 7.

residential customers; winter demand incentive charge to large low voltage (LV) and high voltage (HV) tariffs; and the introduction of 3 flexible connection tariffs.

We recognise that CPU, along with AusNet 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 CPU 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 CPU's proposed tariff communication campaigns form part of their 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 proposed by the Victorian distributors (ranging between approximately $112m - $290m for CPU).[10] While CPU have high network utilisation (Powercor's is the highest in the NEM at approximately 70%, United Energy's is the third highest at about 60%, CitiPower's is in the middle range of distributors at about 45%),[11] we emphasise that 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. CPU have incorporated network tariffs in their wider proposals in the following ways:

- they explained that augmentation associated with exports has been reduced to close to nothing due to the proposed 11am – 4pm solar soak period in the residential time-of-use tariffs
- their 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
- electric hot water heating was assumed to make no contribution to maximum demand

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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 CitiPower, *CP Mod 1.04 – Standardised capex*, January 2025; Powercor, *PAL Mod 1.04 – Standardised capex*, January 2025; United Energy, *UE Mod 1.04 – Standardised capex,* January 2025.

11 AusNet, *Tariff Structure Explanatory Statement 2026–31, January 2025*, p. 14, figure 2-5. There is no equivalent figure in CPU's tariff materials. We note that the figures were current at 2023.

- they used two battery profiles that reduced peak demand.[12]

However, CPU have not otherwise assumed any reduction in peak demand due to residential time-of-use tariffs because they consider that retail customer response to time-of-use tariffs has been historically low and insufficient to defer augmentation.[13]

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.[14] 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.[15]

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.[16] 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.[17]

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.[18] 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

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12 CitiPower*, Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 17; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement, January 2025*, p. 17; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement, January 2025,* p. 17.

13 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

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

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

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

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

18 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).

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 period, with a roughly 27% increase in controlled load electricity usage in the solar soak period from May 2021 to May 2025.[19]
- AusNet's critical peak demand tariffs have been successful in reducing medium and large business demand and helping to manage peak demand on its distribution network on certain peak days during summer.[20]
- Early results from Ausgrid's current critical peak pricing *trial* tariff for small business customers[21] 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.[22]
- 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.[23]
- 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.[24]
- 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.[25]

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).[26] CPU, in their revised proposals, should further consider the capacity of *all* their tariff designs to incentivise a response, including with reference to their proposed tariff

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

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

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

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

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

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

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

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

communication campaigns, and should further integrate their tariff strategies (with reasonable anticipation of responsiveness to tariffs), into the relevant elements of their broader regulatory proposals, including demand forecasts and expenditure proposals.

In consideration of the above examples, we encourage CPU's revised proposals 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 CPU's time-of-use tariffs may be influenced by retailer smoothing/muting of CPU'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 customer responsiveness to network price signals.[27]
- Considering whether any perceived lack of response may be influenced by CPU's analysis being of customers assigned to cost reflective network tariffs, which obscures that a portion of CPU 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 CPU's proposed CER tariff and inclusion of a solar soak period in their residential time-of-use tariffs, 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 their proposed tariff communication initiatives aimed at incentivising take-up of cost-reflective tariffs.
- Considering a tariff or trial tariff that sends price signals for small customers (charges and/or rewards) with flexible load to respond to critical peak events.

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.[28] 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

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27 Jemena Electricity Networks, *Information Request Jemena #010 – TSS clarifications,* March 2025.

28 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.

tariffs still based on LRMC. However, the need for simpler network tariff options based on 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 CPU's proposed 2026–31 tariff structure statements. While we are satisfied many elements of the proposed tariff structure statements comply with the pricing principles and contribute to the achievement of the network pricing objective (NPO),[29] 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.[30,31]

We approve the following elements of CPU's proposed tariff structure statements:

- residential tariff structures and tariff assignment policies, excluding the opt-in CER (two-way pricing) tariffs
- controlled load tariff structures
- small business tariff structures and assignment policies
- medium and large business tariff structures and assignment policies
- large flexible connection tariff structures (excluding the proposed basic export level)
- tariff class and assignment policies.

We do not approve the following elements of CPU's proposed tariff structure statements 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 proposed changes to time-of-use tariffs, small business customers affected by proposed changes to fixed charges, United Energy customers affected by the proposed inclusion of 2 new medium business tariffs, and large business customers affected by the proposed introduction of winter incentive demand charges (per NER cl. 6.18.5(h) and NER cl. 6.18.5(i)).
- proposed changes to small business fixed charge recovery on the basis that bill impacts to customers, particularly non-solar customers, have not adequately been considered in accordance with NER cl. 6.18.5(h)

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29 NER, cl. 6.18.5(a).

30 NER, cl. 6.12.3(k).

31 NEL, s. 7.

- 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 5-year forecasts (per NER cl 6.18.5(f))
- the level of information provided on flexible load connections to better enable customers to understand these tariffs under NER cl. 6.18.5(i).

We require CPU to make the following changes in their revised tariff structure statements:

- calculate the LRMC for both 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[32] of 1 kWh/day for the CER tariffs, small flexible connection tariffs and TUOS (transmission use of system) pass-through tariffs
- include complete network bill impact analysis for all customer types on any proposed changes to tariffs (information required set out throughout section 13.5)
- provide further information as set out in sections 13.5.3.3 and 13.5.3.4, including bill impact analysis, to support proposed changes to small business fixed charge recovery or reconsider the increase
- clarify the supply times available to controlled load tariffs (see section 13.5.3.5)
- include more transparent information as set out in section 13.5.7 on flexible connections agreements and fees, information provided in explanatory statements and responses to information requests
- include further consideration of type 7 and type 9 metered tariffs / unmetered tariffs to further account for type 9 meter loads and whether the tariff name (type 7 and type 9 meter tariff) is fit for purpose for the 2026–31 period (see section 13.5.10).

We also encourage CPU to make the following changes to further improve their tariff structure statements:

- consider developing a tariff or trial tariff that sends price signals for small customers (charges and/or rewards) with flexible load to respond to critical peak events

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[32] 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.

- further consider the capacity of tariff designs to incentivise a behavioural response, including with reference to proposed tariff communication campaigns, and to provide further information on the campaigns
- consult stakeholders to determine whether expanding controlled tariffs to other flexible loads, such as EV charging, may provide further benefit and explore whether retailers could be enabled to control supply of controlled load tariffs
- provide further clarity on which customers (residential, small business and medium business customers) can access controlled load tariffs
- 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
- (Powercor only) provide an explanation of why it has proposed to increase residential time-of-use peak charges by about 24% from approved 2025 prices – indicative 2026 prices
- provide additional bill impact analysis which demonstrates the explicit incentives for customers to opt-in to the CER tariffs
- provide further supporting information (which has been included in their wider regulatory proposals) within their export tariff transition strategies justifying inclusion of two-way pricing
- provide further bill impact analysis demonstrating the impact of two-way pricing to customers from whom revenue is recovered to fund export rewards
- (United Energy) undertake targeted engagement with business customers who would be impacted by the introduction of 2 medium business tariffs from 2026–31, and include more detailed information on an engagement plan in its revised tariff structure statement
- consider undertaking trials in the 2026–31 period on the viability of individually calculated tariffs (ICTs) for non-storage large customers
- 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
- better 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).

13.3 CPU's proposals

CPU's 2026–31 tariff structure statements propose to continue the pricing reform commenced in 2017 by:

- introducing an optional, seasonal two-way/export reward tariff (called the CER tariff) for residential customers[33]
- introducing new default residential time-of-use tariffs to replace the current ones and withdrawing the optional residential demand tariffs[34]
- introducing a solar soak period from 11am – 4pm with 1 c/kWh charges in the new residential default time-of-use and optional new CER tariffs, and accordingly shorting the peak periods to 4pm – 9pm (from the current 3pm – 9pm)[35]
- largely retaining current residential customer tariff assignment policies[36]
- retaining the same small business tariff structures and assignment policies (for customers consuming <40 MWh per annum) [37,38]
- increasing the proportion of revenue recovered from small business fixed charges from 11% to 30% and reducing proposed small business usage charges accordingly[39]
- continuing to reduce the residential and small business time-of-use tariffs by an additional 1% per year relative to the single-rate tariffs so that by 2031, the time-of-use tariffs will be on average 10% lower than single-rate tariffs[40]
- retaining existing controlled load tariffs
- for CitiPower and Powercor: retaining existing medium business (consuming between 40 MWh and 160 MWh per annum) tariff structures

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33 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11.

34 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11.

35 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 11.

36 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 19; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 18; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 19.

37 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 12; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 12; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 12.

38 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 20; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 19; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 20.

39 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10.

40 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10.

- for United Energy: introducing a medium business demand tariff and a medium business time-of-use tariff with the same structure as CitiPower's and Powercor's medium business tariffs[41]
- introducing winter incentive demand charges to the current large LV and HV demand tariffs and retaining the other charging parameters[42]
- retaining existing sub-transmission tariffs
- introducing 3 flexible-connection storage/generation tariffs: flexible small, flexible large and flexible TUOS pass-through tariffs[43]
- proposing 5-year LRMC forecasts and a shift from the marginal incremental cost method to the AIC method to calculate LRMC
- renaming the 'unmetered' tariffs to 'type 7 or type 9' tariffs
- conducting an education campaign to encourage retailer and customer take up of time-of-use tariffs[44]
- adjusting the threshold between the small/medium LV tariff class and large LV business tariff class from a maximum demand threshold to a 160 MWh consumption threshold.[45]

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.[46]

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).[47]

13.4.1 What must a tariff structure statement contain?

The NER require a tariff structure statement to include:[48]

- the tariff classes into which retail customers for direct control services will be divided

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41 United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 12 – 13.

42 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 13 – 14; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 13 – 14; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 14.

43 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 22; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 21; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 22.

44 CitiPower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 6; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 6; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 6.

45 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 5; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 5; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 5.

46 NER, cl. 6.18.1A(a).

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

48 NER, cl. 6.18.1A(a).

- 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.[49]

Our preference is for distributors to structure their tariff structure statement compliance document in accordance with our standardised template.[50]

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.[51]

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

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

50 AER, *Standardised TSS Compliance Template*.

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

NER.[52] We are also required to make our decisions in a manner that will or is likely to contribute to the achievement of the NEO.[53] 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.[54] 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[55]
- 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 CPU commenced several months prior to formal submission. This included observing stakeholder engagement sessions and working closely with CPU to support development of their tariff structure statements.

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.[56] We have since approved two-way tariffs / export reward tariffs for New South Wales and South

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

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

54 NER, cl. 6.18.1A(b).

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

56 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.

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*.[57]

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.[58]

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 CPU's tariff structure statements
- Small customer tariffs (residential and small businesses)
- Two-way tariffs (proposed for residential customers only)
- Medium and large business customer tariffs
- Individually calculated tariffs
- Flexible connection (storage / generation) tariffs
- Long run marginal cost methodologies
- Allocation of residual costs
- Unmetered customer tariffs.

Assignment to tariff classes and statement structures and completeness are discussed separately in sections 13.6 and 13.7 respectively.

13.5.1 Overall assessment against the pricing principles

CPU's proposed tariffs do not sufficiently demonstrate compliance against all of the pricing principles in NER cl. 6.18.5 (e) to (j).

- CPU 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

[57] AER, *Export Tariff Guidelines,* May 2022, updated October 2024.

[58] NER, cl. 6.18.2(b)(7A).

retailers into retail offers[59] (noting further information is required to support understandability of proposed flexible connection tariffs) and **(j)** – that tariffs are generally consistent the NEL and the NEO.

- CPU also demonstrated compliance with principle **(g)** – the revenue recovered from each tariff reflects the total efficient costs of serving the retail customers on the tariff. However, CPU provided further information which better explains their process for allocating residual costs in response to information requests, [60] which we consider could be included in revised tariff structure statements.
- CPU have not demonstrated compliance with principle **(f) -** while CPU based their tariffs on a calculated LRMC they used 5-year forecasts for their calculation rather than a time horizon representative of long-run. This is explained further in section 13.5.8.
- CPU have not demonstrated compliance with principle **(h) –** there are parts of CPU's tariff structure statements that should or could include further network bill impact analysis although we consider it has been provided via responses to information requests. [61,62] Network bill impact analysis is discussed throughout section 13.5.

13.5.2 Stakeholder support for CPU's tariff structure statements

Customer input is important in developing tariffs since their ultimate objective is to influence consumer behaviour. We observe CPU generally engaged well with stakeholders in developing its 2026–31 tariff structure statement. More generally, we observe that CPU'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 that stakeholders largely supported CPU's proposed tariff structure statements, including proposed new time-of-use residential tariffs with solar soak windows, continued discounting of small customer tariffs relative to flat tariffs and small customer tariff assignment policies. However, we note that most of the engagement that we observed and

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

60 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

61 NER cl. 6.18.5(h) – a distributor must consider the impact on retail customers of changes in tariffs, and may vary from pricing principles (e) - (g) to the extent reasonably necessary having regard to: desirability for tariffs to comply with pricing principles (f) and (g), extent to which retail customers can choose the tariffs to which they're assigned and extent to which retail customers can mitigate the impact of changes in tariffs.

62 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request CitiPower #019 – TSS*, May 2025; United Energy, *Information Request CitiPower #017 – TSS*, May 2025.

the submissions we received focussed on residential customers tariffs. This is consistent with submissions from CPU's customer advisory panel and the Consumer Challenge Panel 32 (CCP32) that CPU's own tariff engagement focussed on small customer tariffs.[63, 64] Our draft decision reflects this, and encourages CPU to engage meaningfully with their larger customers on proposed tariff changes to inform their revised tariff structure statements.

13.5.3 Small customer tariffs

Our draft decision is to approve CPU's small customer (residential customers and business customers consuming up to 40 MWh per annum) assignment policies and tariff structures. However, we are not approving the proposed opt-in CER tariff. We discuss our consideration of CPU's proposed opt-in CER tariffs, which introduces two-way pricing for residential customers for the first time in CPU's distribution networks separately in section 13.5.4. We require CPU to include further network bill impact analysis of changes to small customer tariffs, and provide further justification for proposing to increase revenue recovered from small business fixed charges. We also encourage CPU to provide further detail on its proposed tariff education campaign.

We acknowledge that CPU allocate residential and small businesses to separate tariff classes (residential tariff class and small and medium business tariff class). However, for the purposes of explaining our draft decision, we have included our consideration of small business (business customers consuming <40 MWh per annum) tariffs with residential tariffs because there are similar / overlapping issues for both groups.

For small customers CPU proposed to:

- update residential time-of-use tariffs to include a very low-priced solar soak period (11am-4pm)
- continue to discount residential and small business time-of-use tariffs by an additional 1% per year relative to the single-rate tariffs so that by 2031, the time-of-use tariffs will be on average 10% lower than single-rate tariffs
- introduce a new opt-in CER tariff for residential customers (see section 13.5.4)
- increase revenue recovered from small business fixed charges from 11% to 30% and reduce usage charges accordingly
- withdraw residential demand tariffs
- undertake an education campaign to encourage retailer and customer take up of time-of-use tariffs.

Otherwise, CPU proposed to maintain small customer assignment policies and suite of tariffs, including their controlled load tariffs. Some existing small business customers will also

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63 CPU Customer Advisory Panel, *Submissions on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 2 (CitiPower), p. 2 (Powercor); p. 2 (United Energy).

64 CCP32, *Submission on CitiPower's electricity distribution proposal 2026-31,* May 2025, p. 29: CCP32, *Submission on Powercor's electricity distribution proposal 2026-31,* May 2025, p. 27: CCP32, *Submission on United Energy's electricity distribution proposal 2026-31,* May 2025, p. 27.

be affected by United Networks' proposal to introduce medium business tariffs. This is discussed in section 13.5.5.

13.5.3.1 CPU's small customer tariff assignment policies

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

CPU's proposal

For small customers CPU proposed: [65]

- customers on existing residential time-of-use tariffs be assigned to the *new* proposed residential time-of-use tariffs. This will affect approximately 19% (CitiPower), 32% (Powercor) and 16% (United Energy) of residential customers currently on time-of-use tariffs139 (CitiPower), 499 (Powercor) and 560 (United Energy) customers on the current residential demand tariff (proposed to be withdrawn). Customers on the daytime saver trial tariffs would also be assigned to the proposed residential time-of-use tariffs
- 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, be assigned by default to its time-of-use tariffs
- most customers retain the ability to opt-out to:
  - for residential customers, to flat tariffs or the proposed optional CER tariffs
  - for small business customers, to flat tariffs or demand tariffs
- customers with an EV charger above 3.6 kW, *would not* be permitted to opt-out to flat tariffs, consistent with the OIC requirements
- small customers on flat tariffs and controlled load tariffs, and small business customers on demand tariffs would remain on these tariffs.

Stakeholder feedback

Origin Energy supported the withdrawal of the current residential demand tariffs[66] and the Victorian Government maintained support for default time-of-use tariffs for new customers.[67] However, submissions from 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

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65 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 18-20; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 17-19; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, pp. 18-20.

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

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

vulnerable customers.[68] 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.[69]

AER considerations

Consistent with Victorian Government policy to provide multiple tariff options for residential customers,[70] and our previous decisions that encourage tariff optionality for small customers, CPU proposed to retain a choice of offerings for small customers. In the context of the Victorian Government's position against mandatory assignment to cost reflective tariff, we accept CPU's small customer assignment policy. This approach has some benefits as it provides the opportunity for customers to choose a tariff to suit their purposes and manage bill impacts.[71]

Further, CPU'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. CPU do 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.[72] 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. [73]

We also accept CPU's proposal to reassign customers currently on residential demand tariffs to residential time-of-use tariffs and withdraw the demand tariffs due to limited take-up. CPU estimated that most customers would be better off from this change (69%, 65% and 79% of affected customers in CitiPower's, Powercor's and United Energy's' networks respectively would be better off).[74] We consider withdrawal of these tariffs 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.

However, we encourage CPU 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

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68 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).

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

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

71 NER, cl. 6.18.5(h).

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

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

74 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

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 CPU's efficient costs of providing services to them).[75] We also encourage CPU to include more information in revised proposals on their proposed tariff education campaign to encourage take up of these tariffs in the 2026–31 period.

13.5.3.2 Tariff design and charging parameters (not including controlled load tariffs)

Our draft decision is to approve CPU's small customer tariff structures (i.e. charging parameters and charging periods). We consider CPU'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). However, we encourage CPU to develop a tariff or trial tariff that sends price signals for small customers (charges and/or rewards) with flexible load to respond to critical peak events. We also encourage CPU 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.

CPU's proposals

CPU proposed minimal changes to its current small customer tariffs, except for the proposed inclusion of low-priced solar soak periods between 11am – 4pm and reduced peak and off-peak charging periods in the new residential time-of-use tariffs. 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	No change

[75] NER, cl. 6.18.5(d).

Tariff	2021 – 26 tariff structures	2026 – 31 proposed
	Demand charge 10am – 6pm (weekdays, seasonal)	

Stakeholder feedback

Submissions from Origin Energy, Victorian Government and CPU's customer advisory panel supported the solar soak window proposed by all Victorian distributors for residential customers.[76] Stakeholders at the third Victorian distributor workshop also supported the simplicity of the proposed time-of-use tariff with a solar soak window, but acknowledged it might be unfair for those customers who cannot shift behaviour.[77]

For small businesses, the CCP32 recognised that CPU, along with Jemena and AusNet, published a small business customer consultation paper that asked questions about possible changes to small business tariffs, including changing the peak charging window and adding a solar soak. It further noted that response to CPU's paper was limited, and it did not see evidence that those stakeholders who made early submissions were informed of CPU's small business tariff deliberations in the lead up to CPU publishing their proposals.[78]

CCP32 and CPU also noted that in response to the small business consultation paper[79] several stakeholders suggested the distributors could consider solar soak periods for small and medium business customers.[80]

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.

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76 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; 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. 11.

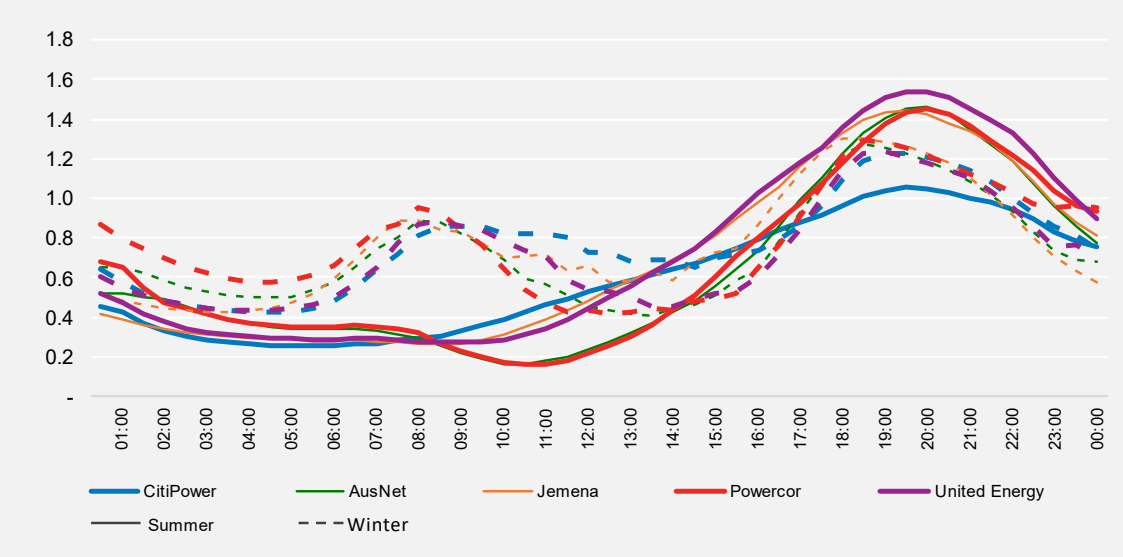
78 CCP32, *Submission on CitiPower's electricity distribution proposal 2026-31,* May 2025, p. 38: CCP32, *Submission on Powercor's electricity distribution proposal 2026-31,* May 2025, p. 36: CCP32, *Submission on United Energy's electricity distribution proposal 2026-31,* May 2025, p. 36.

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

80 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 38; CitiPower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 33; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 34; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 34.

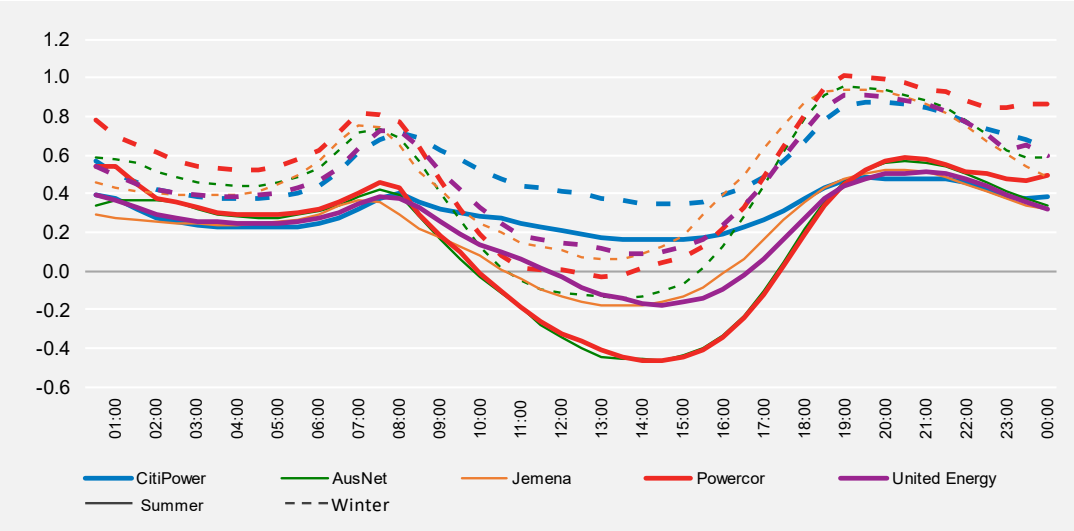
CPU's proposed charging windows reflect the congestion/constraints imposed on the network by its small customers. Their proposed solar soak, peak and off-peak charging windows for residential customers align reasonably with its residential load profiles. Figure 13-1 and Figure 13-2 set out the residential 'average day consumption profiles' in Victorian networks on peak demand and minimum demand days respectively. While not shown on the charts, the proposed peak and solar soak charging windows align reasonably with the peaks and toughs of the profiles.

Figure 13-1 Residential load profiles in Victorian networks on peak demand days



Source: CitiPower, Powercor and United Energy, *Tariff Structure Explanatory Statement 2026–31,* January 2025, figure 7-2.

Figure 13-2 Residential load profiles in Victorian networks on minimum demand days



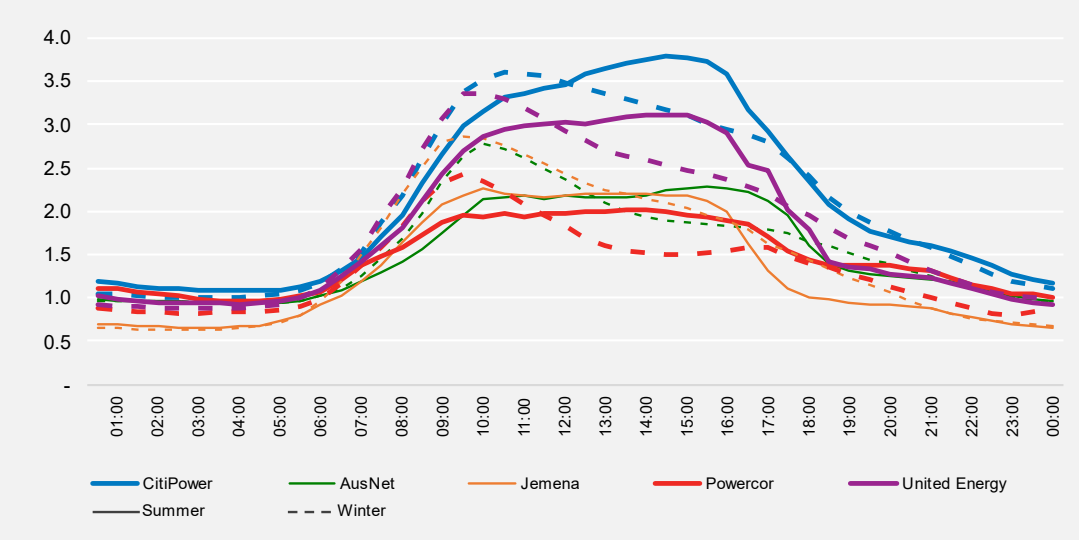
Source: CitiPower, Powercor and United Energy, *Tariff Structure Explanatory Statements 2026–31*, January 2025, figure 7-4.

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 CPU proposed no changes to 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,[81] the Victorian distributors considered that incentivising increased consumption through a solar soak period could exacerbate peak demand in zone substations servicing small businesses. CPU report that 49% (CitiPower), 28% (Powercor), and 43% (United Energy) substations supplying businesses peak during the 11am–4pm saver period.[82] Figure 13-3 shows the small business daily profile on weekdays, demonstrating that, consistent with proposed small business peak charging windows, small business electricity use peaks during the day.

Figure 13-3 Small business load profiles on peak days



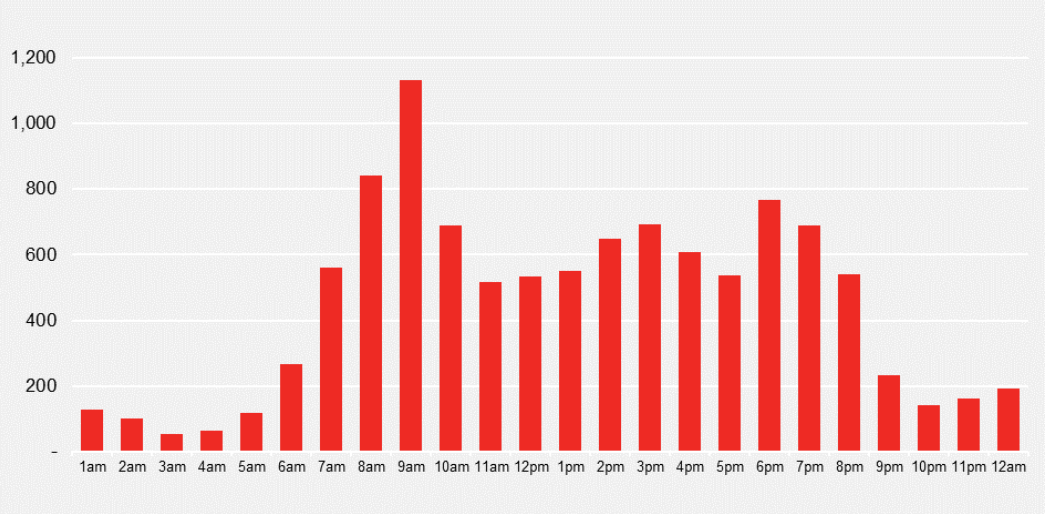
Source: CitiPower, Powercor and United Energy, *Tariff Structure Explanatory Statements 2026–31*, January 2025, figure 7-13.

Further, Figure 13-4 demonstrates that the maximum demand of substations supplying small business customers in CPU's networks is highest between 7am–8pm, using Powercor as an example.

81 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

82 CitiPower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 33; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 34; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 34.

Figure 13-4 Maximum demand of Powercor's substations supplying small business customers



Source: Powercor, provided by CPU via email. Charts for CitiPower and United Energy are similar.

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 CPU 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.

We also encourage CPU to consider innovative tariff trials in the 2026–31 period aimed at managing small customer flexible load, for example through critical peak pricing for small customers. Tariffs with event-driven price signals could reward customers for responding to maximum and minimum day events, help to increase network utilisation on non-event days and further contribute to CPU's compliance with the NPO by more accurately reflecting the efficient cost to provide services to those customers.

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

Our draft decision is to accept CPU's proposed peak to off-peak price ratios for small customer tariffs, including proposed discounting of these tariffs relative to flat tariffs. However, we do not accept the proposal to progressively increase the proportion of network revenue recovered by small businesses through the fixed daily supply charge so that by the 2030/31 roughly 30% of network revenue will be recovered through the fixed daily supply charge. We consider further information is required on the bill impacts of this proposed change per NER cl. 6.18.5(h), particularly the impact on non-solar customers.

CPU's proposals

CPU's indicative tariff levels for 2026/27 continue their current approach to tariff reform. CPU also proposed to continue to discount small customer time-of-use tariffs 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.[83]

CPU proposed to maintain peak to off-peak ratios (calculated from indicative price schedules) of 4:1 for residential customer tariffs, and introduce solar soak to peak ratios between 19-22:1 for default time-of-use tariffs. Ratios for proposed CER tariffs are discussed at section 13.5.4.

CPU proposed to lower small business time-of-use peak to off-peak ratios from 4.5:1 to 4:1. This is consistent with their proposal to increase small business fixed charges relative to usage charges, increasing the proportion of revenue recovered by fixed charges from 11% to 30% by the end of 2031.[84] They considered small business customers with solar have been able to avoid a high proportion of revenue recovery from usage charges.[85]

Stakeholder feedback

Origin Energy supported tariff discounting for all Victorian distributors.[86] The Electric Vehicle Council supported sharply priced time-of-use tariffs to encourage EV usage outside of peak times.[87] It also noted that Powercor indicated that the residential time-of-use peak rate had increased 30% from 2025 to indicative 2026 prices.[88] Other submissions also recommended that distributors explore further options/engagement on tariffs to encourage take-up of time-of-use tariffs.[89]

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 residential time-of-use price signals better met pricing objectives and could encourage customers to change behaviour, and received mixed responses. The stakeholders generally did not support lowering the peak to off-peak ratio but

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

84 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10.

85 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 34; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 34; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 34.

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

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

88 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 3.

89 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).

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.[90]

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 concerns around unintended consequences of discounting network tariffs. 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. 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 consider CPU's proposed residential peak to off-peak and peak to solar-soak ratios are consistent with stakeholder preferences. However, we acknowledge the Electric Vehicle Council's submission. Per approved 2025 annual prices, Powercor's default time-of-use residential tariff has a network charge of 19.3c / kWh. This is compared to proposed 23.91c / kWh in the new time-of-use tariff for 2026 (an approximate 24% increase). We consider that this increase is consistent with the proposed inclusion of a 1c solar soak window (i.e. includes the solar soak window while providing for recovery of total efficient costs). However, we encourage Powercor to explain this increase further in its revised tariff structure statement.

We also consider that CPU should have provided further information supporting their proposed increase to small business fixed charges. CPU did not provide any bill impact on this proposed change in their tariff structure statements (see section 13.5.3.4 on small customer network bill impact analysis). However, an information request response demonstrated a greater proportion of non-solar customers would be worse off from this change compared to solar customers.[91] Further, the average bill increase would be greater for those non-solar customers who would be worse off than the solar customers. While an increase in fixed charges to recover more residual costs better aligns with economically efficient cost recovery we remain concerned that CPU have not provided sufficient evidence to support the increase. We are not against increases in fixed charges in principle, and acknowledge that increases in small business fixed charges could be justified. However, we consider CPU's rationale is not consistent with the bill impact analysis it provided.

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

91 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

13.5.3.4 Network bill impact analysis

Our draft decision is to not approve CPU's small customer bill impact analysis. We require CPU to provide further network bill impact analysis for changes to tariffs in accordance with NER cl. 6.18.5(h). We also require CPU to provide this information to enable stakeholders to better understand the impacts tariffs have on them per NER cl. 6.18.5(i).

CPU's explanatory statements provided the average impact on different customer personas (drawn from across the 5 Victorian distributors) of moving from the current residential time-of-use tariffs to the proposed structure. CPU also provided the average impact on different customer profiles of moving from flat tariffs to the proposed time-of-use tariff structures. CPU did not provide analysis of the impact specific to each of their networks on customers moving from the current time-of-use tariff to the new time-of-use tariffs. It also did not provide analysis on the impact of withdrawing residential demand tariffs or the impact on small business customers of proposing to increase recovery from fixed charges.

CPU did provide further, more granular information in responses to information requests.[92] This information demonstrated that between 72% - 77% of residential customers would be better off from moving from flat residential tariffs to time-of-use tariffs, and about 50% would be better off from moving from the current time-of-use tariffs to the proposed structure. They also demonstrated that most customers would be better off from withdrawing residential demand tariffs (69%, 65% and 79% of affected customers in CitiPower's, Powercor's and United Energy's' networks respectively).

Analysis on small business impact due to 30% increase in fixed charge revenue, also provided in responses to information requests, demonstrated mixed impact depending on the tariff a customer is on and whether they have solar. As explained above, this analysis indicated that non-solar customers would generally be worse off than solar customers.

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 CPU should include analysis (provided in information requests) on the impact of all proposed changes to their small customer tariffs (changes to time-of-use tariff, withdrawal of demand tariffs, proposed increase to small business fixed charges) that are specific to each distributor and not based on average impacts across Victoria.

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 Controlled load tariffs

Our draft decision is to approve CPU maintaining their existing controlled load tariff structures. However, we require CPU to clarify the minimum hours of supply available to customers on these tariffs. This is because a tariff structure statement must include tariff

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92 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025.

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.

CPU's proposal

CPU proposed no changes to controlled load tariffs which are available to small customers (and some legacy medium business customers), with supply available over a 24-hr period.[93] Their existing controlled load tariffs are:

- CitiPower and Powercor: 8 hours per day (hot water), 10 hours per day (slab heating)
- United Energy: 7 hours per day (hot water), 10 hours per day (slab heating).[94]

Slab heating for controlled load would continue to be for legacy customers only.[95]

Stakeholder feedback

AGL submitted that the Victorian distributors should introduce dedicated circuit (CPU's controlled load) 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.[96]

AER considerations

Controlled load 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. Controlled load 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.

We consider that CPU's continuation of 24-hour controlled load tariffs remains attractive to customers and can benefit CPU's networks. Orchestrated flexible loads may be effective in managing peak and minimum demand with minimal customer impact.

We note that CPU made small errors in the daily supply time of their controlled load tariffs, which they rectified in response to information requests.[97] We require CPU to provide

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93 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.

94 Supply time availability was provided to us in information requests CitiPower, *Information Request CitiPower #042 – TSS*, May 2025; Powercor, *Information Request Powercor #041 – TSS*, May 2025; United Energy, *Information Request United Energy #036 – TSS*, May 2025.

95 Slab heating is a form of underfloor heating where concrete slabs are heated with electrical cables, providing radiant heat,

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

97 Supply time availability was provided to us in information requests CitiPower, *Information Request CitiPower #042 – TSS*, May 2025; Powercor, *Information Request Powercor #041 – TSS*, May 2025; United Energy, *Information Request United Energy #036 – TSS*, May 2025.

corrected information in revised tariff structure statements. We also encourage CPU to make it clearer that some legacy medium business customers will continue to have access to controlled load tariffs.

We also encourage CPU to continue consulting with stakeholders to determine whether expanding controlled loads to other flexible loads such as EV charging may provide further benefit. In consideration of AGL's submission, we also encourage CPU to 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. [98]

13.5.4 Two-way tariffs

Our draft decision is to not approve CPU's proposed two-way ('CER') tariffs as they do not comply with all the requirements in the NER. While we support CPU's two-way tariffs in principle, we require CPU to make the following changes in their revised tariff structure statements:

- re-calculate the export LRMC over a minimum 10-year period (for reasons discussed in section 13.5.8.)
- further explain 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.

We also encourage CPU to:

- include further information on the explicit justifications for two-way pricing within their export tariff transition strategies (as was included in their broader regulatory proposal)
- provide additional bill impact analysis which demonstrates the explicit incentives for customers to opt-in to the CER tariffs (i.e., the export/consumption behaviour required to be materially better off compared to other tariff offerings)
- 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.

CPU has otherwise justified their need for two-way pricing and incorporated the customer protections required by the NER,[99] for example, by including an export tariff transition strategy.[100]

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.[101] Two-way pricing can also contribute to the achievement of the emissions

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

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

100 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)).

101 NEL, Part 1, s.7.

reduction element of the NEO in supporting the achievement of jurisdictional emissions reduction targets (i.e. the Victorian Government's net zero 2045 target)[102], by incentivising increased self-consumption of renewables through electricity sourced from solar PV. Self-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.

CPU were the only Victorian distributors to propose seasonal variation to import and export prices for their two-way tariffs (to reflect variable seasonal peak demand levels). AusNet and Jemena proposed consumption charges identical to their default time-of-use tariff. Table 13-2 sets out CPU's proposed differences in *consumption charges* between default residential time-of-use tariffs and proposed two-way tariffs.

Table 13-2 Differences in consumption charges between residential time-of-use and two-way tariffs[103]

Distributor	Default time-of-use tariff		CER tariff		
	Import peak	Import off- peak	Import peak (Dec – Feb, Jun – Aug)	Import peak (Mar-May, Sep-Nov)	Import off-peak
CitiPower	18.99 c/kWh	4.75 c/kWh	27.20 c/kWh	18.92 c/kWh	3.20 c/kWh
Powercor	23.91 c/kWh	5.98 c/kWh	30.14 c/kWh	23.79 c/kWh	4.80 c/kWh
United Energy	19.14 c/kWh	4.78 c/kWh	25.00 c/kWh	19.14 c/kWh	3.73 c/kWh

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, CPU proposed an export LRMC of 1 c/kWh for Powercor and United Energy and therefore an export charge of 1 c/kWh. CPU proposed an export LRMC of 2 c/kWh for CitiPower, however, proposed an export charge of 1 c/kWh to align with Powercor and United Energy's charges. Apart from AusNet's export

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

103 Prices as per CPU's *SCS indicative pricing schedule 2026-27* (January 2025), to apply from 1 July 2026.

reward, Victorian distributors' export rewards are similarly based on their respective peak import LRMCs. Table 13-3 sets out the proposed export rewards and charges.

Table 13-3 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.

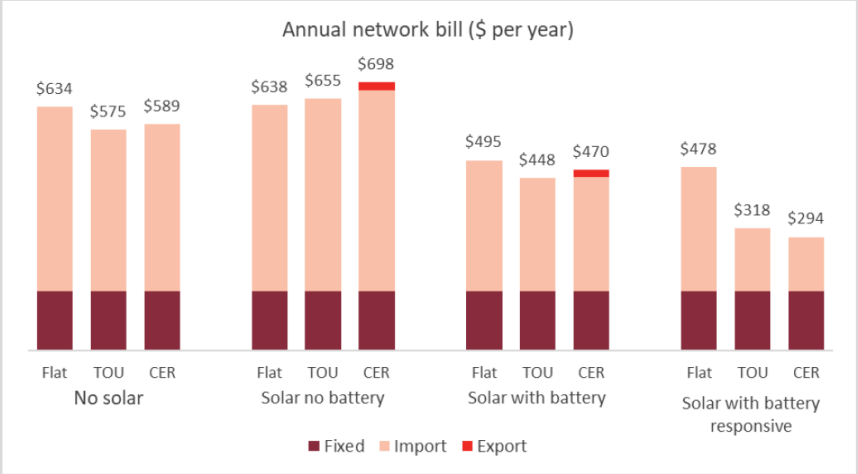
The Victorian distributors noted the CER tariff is likely to be of most interest to battery customers participating in Virtual Power Plants (VPPs). For example, where a retailer or aggregator has control over a home battery or EV with vehicle to home/grid capability. CPU and AusNet indicated that for those customers with less flexible import and export capability, their two-way tariff option is unlikely to be attractive.[104]

This is supported by CPU's bill impact analysis, which indicated that it is likely only CER customers with 5-10 kW of solar and battery responsiveness would be better off on the two-way tariff (Figure 13-5 shows an example from Powercor's tariff structure statement). CPU observed current battery operation falls short of optimised behaviour.[105] Therefore, without responsiveness to two-way tariff price signals, battery customers would be charged a net higher bill as they would incur export charges but only realise a small amount of export reward.

104 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; AusNet, *Tariff Structure Compliance document 2026–31,* January 2025, p. 31.

105 CitiPower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 27; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 27; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 27.

Figure 13-5 Network charges by residential tariff (Powercor)[106]



CPU consulted on the two-way tariff at the second and third (of 3) joint Victorian distributor workshops. CPU 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 non-locational weaker signals.[107]

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. 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.[108]

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

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106 Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 29. The same bill impact graph is provided in CitiPower and United Energy's proposal, with the same underlying trend in annual network bills although with varying price levels.

107 CitiPower, *CP ATT SE.17 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 2*, December 2024, pp. 9–12; CitiPower, *CP ATT SE.18 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 3*, April 2024, pp. 14–15; Powercor, *PAL ATT SE.17 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 2*, December 2024, pp. 9–12; Powercor, *PAL ATT SE.18 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 3*, April 2024, pp. 14–15; United Energy, *UE ATT SE.17 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 2*, December 2024, pp. 9–12; United Energy, *UE ATT SE.18 - bd infrastructure - Victorian Electricity Distributors Tariff Structure Statement - workshop 3*, April 2024, pp. 14–15.

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

linked to export charges.[109] 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.

The Electric Vehicle Council also submitted analysis addressing CPU's proposed seasonal price levels.[110] It explained that the required export levels to benefit from the CER tariff may not be achievable for many exporters, given rewards are only provided within summer/winter months (not year-round). Further, the Electric Vehicle Council considered that while seasonality is more cost reflective, it may be too complex for consumers (if passed through by retailers). The Electric Vehicle Council considered that this may cause the CER tariff to have poor participation and weak behavioural responses.

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.[111]

The CCP32 considered that consultation on the two-way pricing tariff only occurred at the third (of 3) joint Victorian distributor consumer workshops. CCP32 indicated that limited options for the two-way tariff were offered and discussed in the workshop and no consensus was reached on preferences.[112]

13.5.4.2 AER consideration on two-way tariffs

We are not satisfied CPU's proposed two-way tariffs comply with the pricing principles and other applicable requirements in the NER. We consider CPU justified the inclusion of proposed two-way tariffs and that elements of the tariff structures comply with the pricing principles. However, we do not approve CPU's LRMC methodology (for reasons discussed in section 13.5.8) or basic export level.

CPU satisfied NER two-way pricing customer protection requirements[113] 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 CPU'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 tariff structure statements and proposals.

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

110 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, pp. 3 - 6.

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

112 CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 36; while this feedback was submitted against AusNet's proposal, we consider it also applicable to CPU given the workshops in question were conducted jointly with Jemena and AusNet.

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

CPU 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.[114] We consider CPU has sufficiently justified its need for two-way pricing given:

- CPU expects peak underlying import demand and exports to continue to occur during critical months (import peaks in summer/winter and export peaks in non-winter months)[115]
- CPU expects rooftop solar capacity to triple by the end of 2031, which may diminish export hosting capacity and increase minimum demand issues[116]
- the proposed two-way tariff is opt-in (bill impacts are avoidable) and therefore may be considered an iterative step to familiarising CPU's customers with export tariff components.

In their revised proposal, we encourage CPU to include their explicit justifications for two-way pricing within their export tariff transition strategies. That is, while we consider their inclusion of two-way pricing justified based on the information provided throughout the regulatory proposal, we encourage this information be included within the tariff structure statements. We encourage CPU to consider section 3.1 of our *Export Tariff Guidelines* on the information that should be included in their export tariff transition strategies and tariff structure explanatory statements.

Export LRMC and proposed export tariff charge/reward levels

We require CPU to provide in their revised tariff structure statements greater disaggregation and explanation of the costs included to derive the export LRMCs, as forecast expenditure was only provided at an aggregate level in the export LRMC models. For example, it is not apparent in CPU's proposed tariff structure statements how any double counting has been avoided in estimating and allocating the LRMC between export and consumption services.[117] This information was subsequently provided by CPU in responses to an information request.[118] However, we require that this be included in revised export LRMC models. We encourage CPU to consider section 5.1 of our *Export Tariff Guidelines* when considering the costs and information to include in their revised export LRMC methodologies.

We consider some other elements of CPU's proposed two-way tariffs are capable of acceptance. The proposed two-way tariff structures (seasonality and export charge/reward windows) align LRMC recovery with peak export and import demand times when the costs to support distribution services are highest, and therefore, contribute to recovering revenue consistent with NER cl. 6.18.5(f). CPU's approach to setting export charges based on export

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

115 CitiPower*, Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 23; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement, January 2025*, p. 23; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement, January 2025,* p. 23.

116 CitiPower, *BUS 2.01 - Flexible Services*, January 2025, p. 2; Powercor, *BUS 2.01 - Flexible Services*, January 2025, p. 2; United Energy, *BUS 2.01 - Flexible Services*, January 2025, p. 2.

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

118 CitiPower, *Information Request CitiPower #050 – TSS*, August 2025; Powercor, *Information Request Powercor #054 – TSS*, August 2025; United Energy, *Information Request United Energy #047 – TSS*, August 2025.

LRMC is also consistent with the pricing principles that tariffs must reflect efficient costs (NER cl. 6.18.5(g)).

We note the Electric Vehicle Council's submission on CPU's proposed seasonality. While we consider seasonality does add an additional layer of complexity to CPU's proposed two-way tariffs, we consider they still comply with the customer understanding distribution pricing principle NER cl. 6.18.5(i), which requires tariffs to either be understandable by customers or *be capable of being incorporated by retailers*. We also considered that seasonal tariffs are not unique to CPU, and they have been supported by the Victorian Government.

CPU'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.

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.

Further explanation of 1 kWh/day basic export level required

We do not approve CPU's proposed basic export level at this stage as we consider insufficient information was provided in CPU's tariff structure statements 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 CPU 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 distributor development and AER approval of two-way (export) tariffs.[119] 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 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.[120] 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.

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119 NER, cl 6.8.1B.

120 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.

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 CPU have 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.[121] CPU's rationale was that an economically efficient basic export level for an *optional* two-way tariff is zero.[122] In their broader regulatory proposal, CPU calculated a per customer median intrinsic hosting capacity of 1.6kW for CitiPower, 1.4 kW for Powercor, and 1.5 kW for United Energy.[123] However, CPU did not provide any explanation or connection in their tariff structure statements between their proposed basic export level and the calculated hosting capacity. It is therefore not apparent whether CPU's rationale for their 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).

Observations on network bill impacts

We encourage CPU to consider including in revised tariff structure statements further bill impact analysis which demonstrates the explicit incentives for customers to opt-in to the two-way tariff.

For example, it is unclear in current proposals:

- the amount of export behaviour change required to be better off on the two-way tariff (i.e., examples of the optimised behaviour being incentivised, expressed in kWh reductions/increases in exports)
- how seasonality can benefit flexible customers, for example, including whether there are any instances where solar only customers (no battery) might be better off on the two-way tariff compared to the flat or time-of-use tariff (i.e., achieving bill reductions solely through increased responsiveness to seasonal peak import prices).

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121 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.

122 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.

123 CitiPower, *Regulatory Proposal 2026-31 Part B: explanatory statement, Revenue and expenditure forecasts*, January 2025, p. 27; Powercor, *Regulatory Proposal 2026-31 Part B: explanatory statement, Revenue and expenditure forecasts*, January 2025, p. 27; United Energy, *Regulatory Proposal 2026-31 Part B: explanatory statement, Revenue and expenditure forecasts*, January 2025, p. 27.

We also encourage CPU to show the impact to customers from whom revenue is recovered to fund export rewards. Part of the AEMC's considerations for export tariffs were that customers deriving most benefit from exports would pay the most for export services.[124]

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

Although they remain opt-in, the Victorian distributors' two-way tariff makes 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. CPU's assignment policy has been driven by the Victorian Government.[125]

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.[126] 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."[127]

Due to the limited cost recovery expected from the two-way tariff export charges, CPU 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 tariffs) reduces the cross subsidy between customers with and without solar.[128]

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 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

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

125 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 23; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 22; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 23.

126 For example: Jemena Electricity Networks*, JEN Att-9.01 Tariff Structure Statement 2026-31, January 2025*, p. 23; CitiPower*, Tariff Structure Statement 2026-31 – Compliance Document,* January 2025, p. 26.

127 Jemena Electricity Networks*, JEN Att-9.01 Tariff Structure Statement 2026-31, January 2025*, p. 23.

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

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 CPU'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 CPU's medium and large business tariff structures and tariff assignment policies. 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 CPU to include further network bill impact analysis particularly to demonstrate the impact of the proposed introduction of the winter demand incentive charge to Powercor's customers and the introduction of medium business tariffs in United Energy's network, consistent with NER cl. 6.18.5(h).

ICTs and tariffs for flexible connection customers are discussed separately in sections 13.5.6 and 13.5.7.

13.5.5.1 Proposal

CPU proposed to maintain current medium and large business tariff structures and assignment policies, except for:

- introducing medium business tariffs in United Energy's network
- introducing winter incentive demand charges to large customer tariffs.

Proposed tariff structures

CitiPower and Powercor proposed no changes to their suite of tariffs for medium business customers (business customers consuming between 40 MWh–160 MWh per annum). They proposed to continue to offer a default medium business demand tariff and an optional medium business time-of-use tariff, with unchanged charging windows (Table 13-4).

Table 13-4: Medium business tariff structures

Tariff	Assignment	Charging windows
Medium business demand	Default	Peak demand: 10am – 6pm weekdays, summer and non-summer Off-peak: all other times
Medium business time-of-use	Optional	Peak energy: 10am – 6pm weekdays Off-peak: all other times

United Energy proposed to introduce a default medium business demand tariff and an optional medium business time-of-use tariff (with the same structures as CitiPower and Powercor). United Energy currently does not currently distinguish between small and

medium business customers (all business customers consuming up to 160 MWh have the same tariff options). The proposed medium business tariffs are intended to better recover fixed charges from medium business customers and to align with CitiPower and Powercor. This proposed change will result in 3306 customers being reassigned from the small business demand tariff to the medium business demand tariff and 2413 customers being reassigned from the small business time-of-use tariff to the medium business time-of-use tariff.[129]

CPU's proposed large business (LV business customers consuming over 160 MWh per annum) and HV business tariffs are largely a continuation of the 2021–26 approved tariffs, except for the inclusion of **winter** incentive demand charges to large LV and HV rolling demand tariffs. CPU proposed the winter incentive demand charge because they identified winter peaking areas of their networks. The incentive demand charge would be location dependent. Currently, only zone substations in Powercor's network exhibit a distinct winter demand peak, but CPU anticipates that one or more zone substations in CitiPower's and United Energy's networks may transition to a winter peaking profile during the 2026–31 period.[130] CPU proposed to send a notification to affected customers about the change at least eight months prior to their being subject to the winter demand charge.[131]

CPU proposed no changes to their sub-transmission tariffs (Table 13-5). CPU's proposed flexible connections TUOS pass through tariff is considered separately at section 13.5.7.

Table 13-5 - Large LV, HV and sub-transmission tariff structures

Tariff	Charging windows
Large LV and HV rolling demand tariffs	• Peak energy: 7am - 7pm weekdays • Off-peak: all other times • Rolling demand: applied to maximum 15-minute kVA demand over the most recent 12-months between 7am - 7pm weekdays • Customer assigned to one of 3 incentive demand charges: applied to maximum 15-minute kVA demand for the respective months on workdays, measured as follows: - between 1pm – 4pm in summer (Dec-Mar) - between 4pm – 7pm in summer (Dec-Mar) - **new** between 4pm – 7pm in winter (May-Aug)

129 United Energy, *Information Request United Energy #036 – TSS*, June 2025.

130 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request CitiPower #019 – TSS*, May 2025; United Energy, *Information Request CitiPower #017 – TSS*, May 2025.

131 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38.

Sub-transmission tariffs	• Peak energy: 7am - and 7pm, weekdays • Off-peak energy: all at other times • Rolling demand: Charge applied to maximum 15-minute kVA demand over the most recent 12-months measured from 7am - 7pm weekdays

Large business network bill impact analysis

CPU's tariff structure statements and explanatory statements did not include bill impact analysis for medium or large customer tariffs. Responses to information requests explained that:[132]

- United Energy will calculate bill impacts due to the proposal to split small and medium business tariffs, for inclusion in the revised proposal
- most customers affected by United Energy's proposed medium business tariffs would be worse off, with an average network bill increase of $1200
- approximately half of the medium-sized business customers in CitiPower's and United Energy's networks would face an average network bill saving by moving from the default medium business demand tariff to the optional time-of-use tariff, however only about30% of equivalent customers in Powercor's network would face an average network bill saving
- CPU are not proposing to change the relativity of pricing parameters within large LV, HV and sub-transmission tariffs
- introducing a winter incentive demand charge will affect 362 large LV and 33 HV Powercor customers. Roughly 60% of these will face an average network bill saving from being assigned to the winter incentive demand charge.

Stakeholder feedback

CPU's customer advisory panel submission noted CPU had increased engagement with commercial and industrial customers after publishing *draft* proposals, but prior to that had focused on engagement with residential and small business customers.[133] It also noted that that many large business customers did not understand how their demand charges were calculated.[134] CCP32's submissions observed that CPU's customer advisory panel "called out" the lack of engagement with large customers, and that CCP32 considered the interests of small and medium enterprises in rural communities were missing in CPU's tariff

132 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025; United Energy, *Information Request United Energy #036 – TSS*, June 2025.

133 CPU Customer Advisory Panel, *Submissions on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 2 (CitiPower), p. 2 (Powercor); p. 2 (United Energy).

134 CPU Customer Advisory Panel, *Submissions on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 24 (CitiPower), p. 26 (Powercor); p. 25 (United Energy).

discussion.[135] CPU's explanatory statements reflect feedback captured by Forethought[136] on CPU's *draft* proposals. This included that many large customers were insufficiently informed about tariff structures, and that many commercial and industrial customers are unaware of their current network tariff structures and prefer straightforward network tariffs and easily comprehensible educational materials.[137]

AER considerations

For medium customers, CPU's proposed tariffs reflect times of network constraint and the efficient costs of providing import services (consistent with the NPO). We acknowledge United Energy's reasoning for introducing medium customer tariffs to better recover fixed charges, and consider this will increase consistency in tariff offerings across the 3 distributors in CPU's network.

For large LV and HV customers, these customers were transitioned onto the full incentive demand tariffs during the 2021–26 period and have had time to get used to the tariff structure. We consider that location-based signals for all customers of this size are also consistent with the NPO. Location based signals most accurately reflect the efficient costs of providing services to those customers and we consider large businesses capable of understanding and responding to these more sophisticated price signals. We also consider that CPU have adequately described how they will explain and notify the introduction of winter demand incentive to retailers and customers.

However, consistent with the our rationale provided in the section on small customer network bill impact analysis (section 13.5.3.4), we require CPU to include in their revised tariff structure statements the network bill impact analysis provided in information requests, consistent with NER cl. 6.18.5(h), namely:

- impact to United Energy customers affected by proposed medium business tariffs, who would face fixed charges about 6 times more than the proposed small business fixed charges they would face under current assignment policies (383.6 c/day vs 61.2 c/day)[16]
- impact to Powercor large LV and HV customers from winter incentive demand charges.

We also acknowledge stakeholder observations that CPU's engagement with large customers was limited and many large customers are unaware of their network tariff structures. CPU indicated they will publish improved online material to explain its network tariffs.[138] We note that large customers also have access to an online network visualisation portal which helps them to identify their applicable incentive demand charge window based

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135 CCP32, *Submission on CitiPower's electricity distribution proposal 2026-31,* May 2025, p. 29: CCP32, *Submission on Powercor's electricity distribution proposal 2026-31,* May 2025, p. 27: CCP32, *Submission on United Energy's electricity distribution proposal 2026-31,* May 2025, p. 27.

136 Forethought is a consultancy group engaged by CPU to assist its stakeholder engagement.

137 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38.

138 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 37; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 37; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 37.

on their location.[139] We encourage United Energy to undertake similar targeted engagement with medium business customers who would be impacted by new tariffs from 2026–31, and include more detailed information on an engagement plan in its revised tariff structure statement.

13.5.6 Individually calculated tariffs

Our draft decision accepts that CPU has not proposed ICTs for non-storage large customers (tariffs for TUOS flexible connection customers are discussed in section 13.5.7). However, we encourage CPU to undertake trials in the 2026–31 period and encourage stakeholders to make submissions on their viability for non-storage large customers.

Our 2021–26 Victorian tariff structure statement draft decisions *required* the distributors to include ICTs in their revised proposals.[140] In response, distributors made small changes to large customer tariffs, but did not include ICTs, citing insufficient time to develop them. Our final decisions encouraged their inclusion in 2026–31 tariff structure statements.

While AusNet and Jemena proposed ICTs for the 2026–31 period, CPU did not. CPU's rationale included that ICTs are not appropriate for non-storage customers as non-flexible load large customers, such as data centres, cannot respond to a TUOS pass-through tariff, and large new customers are likely to have a new dedicated sub-transmission line which would be sized to meet the customer capacity (such that the LRMC of that sub-transmission line would be zero and no site-specific signal required).[141]

Stakeholder feedback

We received no submissions on ICTs. CPU received feedback that many large businesses do not have the flexibility to change consumption behaviour.[142] However, they also received feedback to their draft proposals that many large customers felt insufficiently informed about tariff structures which limited their ability to provide detailed feedback.[143]

AER considerations

We consider that CPU responded in part to our 202 –26 tariff structure statement decisions by proposing individually calculated TUOS pass-through tariffs for *storage* customers. We also consider that CPU's HV tariffs are somewhat tailored to large customers because they

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139 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025; United Energy, *Information Request #036 – TSS*, June 2025.

140 AER, *Draft decision – AusNet, CitiPower, Jemena, Powercor and United Energy 2021–26 – Attachment 19 Tariff Structure Statement,* September 2020, p. 6. Our draft decision said: *Passing through the locational TUOS price via ICTs can be a good way to begin incorporating locational signals into total network tariffs. Passing through the locational TUOS charge via the ICT may be a less resource intensive option … given they are already a requirement in transmission pricing.*

141 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request Powercor #017 – TSS*, May 2025.

142 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 38.

143 Forethought, *Test and Validate: Commercial and Industrial Customers Engagement, Produced for CitiPower, Powercor and United Energy*, October 2024, p. 15.

face different incentive demand charges depending on their location and whether they are driving demand in summer or winter peaking zone substations.

We note also that there is evidence that very large customers like data centres *can* respond to price signals.[144] Given that CPU received feedback that some large customers felt they had limited ability to provide tariff structure feedback, we encourage CPU to undertake more engagement with large customers between now and revised proposals. CPU could also develop tariff trials in the 2026–31 period that could explore *non-TUOS pass-through* site-specific tariffs, for example to consider critical peak demand pricing for very large customers.

13.5.7 Flexible connection tariffs

Our draft decision is to approve CPU's proposed large flexible connection tariff *structures*. However, consistent with our decision on proposed CER tariffs in section 13.5.4, we require CPU to provide further information on their proposed 1 kWh / day basic export level for the small flexible connection and TUOS pass-through tariffs, in accordance with NER cl. 11.141.13(b)(1)(i). We also require CPU to provide further information on the mechanics of flexible load connections, including more information on what would be included in flexible network support agreements, how CPU may apply their discretion, the connection processes and fees for customers and moving their tariff structure information into their tariff structure statements. We consider that because of the lack of information, the tariffs are not capable of being understood by customers or able to be incorporated into retail offers in accordance with NER cl. 6.18.5(i).

13.5.7.1 Proposal

CPU proposed to introduce 3 new tariffs for flexible connections (Table 13-6). CPU defined a flexible connection to include any battery or stand-alone generation connection, and may also include loads combined with storage such as EV charging combined with battery, and other flexible loads such as hydrogen production facilities.[145] Importantly, these tariffs would apply to storage customers *and* generation customers[146] but not to business sites with solar (those businesses would primarily consume energy for business operations). To be eligible for a flexible connection tariff customers must have an agreement with CPU that allows CPU a level of control over the connection to manage demand.

Tariff assignment policies for each of the flexible connection tariffs are the same: default tariff assignment, with the option for customers to opt-out to the tariff that would have applied had they not been classified as a flexible connection. Customers on existing storage tariff trials would be assigned to the appropriate flexible connection tariffs. CPU's distributor-owned flexible connections would be subject to the same network tariffs.

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144 S. Borenstein, Energy Institute Blog, *Can Data Centres Flex their Power Demand?*, April 2025, accessed June 2025/ https://energyathaas.wordpress.com/2025/04/14/can-data-centers-flex-their-power-demand/.

145 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42.

146 This could include solar farms, wind farms, hydro generators, gas generators etc.

Table 13-6 Flexible connection tariffs

Tariff	Tariff structures
Small flexible connection (< *240 kVA import capacity)* (LV) 1 kWh/day basic export level	• Peak import: 4pm – 9pm (summer and winter), 7 c/kWh • Off-peak import: all other times, 0 c/kWh • Capacity: $/kW/month (charge depends on the network) • Export rebate: 4pm – 9pm, (summer and winter) 7 c/kWh • Export charge: 11am – 4pm (September – May, June - August), 1 c/kWh
Large flexible connection (>240 KVA and < 30 MVA import capacity) (HV)	• Peak import: 4pm – 9pm (summer and winter), 7 c/kWh • Off-peak import: all other times, 0 c/kWh • Capacity: $/kW/month (charge depends on the network)
Flexible TUOS passthrough tariff (Sub-transmission) 1 kWh/day basic export level	• Import transmission energy: $/MWh • Import transmission demand charge: $/kW/month • Export transmission demand reward: $/kW/month • Monthly capacity: $/kVA/month (site-specific)[147]

Export rewards and charges apply to the small flexible connection and flexible TUOS pass through tariffs (with a basic export level of 1kWh per day (the same basic export level proposed for CER tariffs). Their rationale for the low basic export level was that these customers do not need consumer protections.[148] CPU did not propose export charges for the proposed large flexible tariffs because exports are not forecast to drive the need for augmentation investment on CPU's HV networks.[149]

CPU submitted that connection arrangements are evolving and therefore it will need to retain some discretion about eligibility for flexible connection tariffs. CPU considers there may be circumstances where EV charging sites, particularly on the LV network such as pole mounted chargers, would be appropriately assigned to flexible connection tariffs. They

147 The charging parameters in this tariff apply to all months of the year and all times. The TUOS pass through rates will be equivalent to the transmission rates which are charged to CPU and determined by AEMO, with the transmission demand charge based on location.

148 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 10.

149 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 47; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 47; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 47.

therefore intend to trial placing a limited number of LV charging sites on the small flexible connection tariffs in the next regulatory period.[150]

CPU also proposed that the contribution of flexible connections to residual costs should be discounted because they are being subjected to some demand management.[151] They proposed to recover residual costs through the capacity charges, to ensure that a customer contributes to residual costs proportionately to capacity required from the network.

Flexible connection tariffs network bill impact analysis

CPU's customer impact analysis demonstrates that those customers assigned to the small flexible tariffs, such as community batteries (based on a 100kW battery) would have the opportunity to earn a net credit from the network if they have more than 2 hours of storage.[152]

For customers on the large flexible connection tariffs, customer impact analysis shows annual network charges ranging from $7,500 per annum for a 500kW capacity battery to $75,000 per annum for 5000kW capacity. CPU considers these costs are small in comparison to the arbitrage profit that a battery can earn from the wholesale market and therefore should have very little impact on their internal rate of return.[153]

Stakeholder feedback

We received 3 submissions on CPU's storage tariffs. Rondo Energy supported Powercor's flexible connection tariffs.[154] The Victorian Government supported CPU's mirrored peak import charges and export rebates for winter and summer and the free import during off-peak times.[155] 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. It considered this particularly relevant for CPU's proposed storage tariffs, as they require customers to opt into a flexible connection agreement.[156] CPU also noted customer feedback that distributors should make available more information about where storage would be most beneficial to the network.[157]

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150 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 42.

151 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 44; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 44; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 44.

152 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 46-47; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 46-47; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 46-47.

153 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 48-49; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 48-49; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, pp. 48-49.

154 Rondo Energy, *Submission - Victorian electricity distribution proposals 2026-31*, April 2025, p. 1.

155 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025, p. 11.

156 AGL, *Submission in Victorian distributors regulatory proposals 2026-31*, p. 3

157 CitiPower, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 41; Powercor, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, p. 41; United Energy, *Tariff Structure Statement 2026-31 - Explanatory Statement*, January 2025, June 2025, p. 41.

13.5.7.2 AER's considerations

We recognise that storage is becoming increasingly important as Australia transitions to net zero and flexible connections leverage available network capacity and can aid network augmentation, while reducing customer connection charges (for locations where there is more spare capacity). Accordingly, we consider these tariffs contribute to achievement of the emissions reduction element of the NEO, by supporting the achievement of jurisdictional targets (i.e. the Victorian Government's net zero 2045 target[158]). They do this by incentivising consumption when output from renewable generation is high and disincentivising consumption during the evening peak when generation is dominated by fossil fuels. By increasing consumption during periods of high renewable energy production they also increase the capacity for DER/CER generation on the network which (in combination with storage) enables further lowering of consumption during times when generation is dominated by fossil fuels. We note also that CPU's flexible load connection tariffs were informed by their tariff trials undertaken in the 2021–26 period and have broad stakeholder support.

For the proposed 1 kWh per day basic export level, we consider CPU have not provided us enough information to allow us to have regard to the basic export level being set with regard to CPU's intrinsic hosting capacity, as we are required by NER cl. 11.141.14(b)(1)(i). We require CPU to provide in their revised proposals further information and analysis that explains how they set their basic export levels for small flexible and TUOS pass-through tariffs, having regard to intrinsic hosting capacity. Note that our decision does not apply to the proposed large flexible load tariffs as CPU have not proposed export charges or rewards (and therefore no basic export level) for these tariffs.

We also consider that CPU should have provided further explanation of how connection agreements and flexible control work in practice, and we acknowledge AGL's concern that all storage tariffs should be accompanied by transparent connection processes and fees. This is particularly because CPU proposed discretion over eligibility for these tariffs and a level of demand control. In response to information requests, CPU provided further information which included:[159]

- general conditions that could influence why CPU would interrupt or limit export, including due to instructions by AEMO or where CPU considers it necessary for reliability, safety or security of the distribution system
- connections negotiation process would be specific to each customer
- network support agreements are not a pre-requisite for a flexible connection
- connection charges are calculated in accordance with the AER's Connection Charge Guideline. Flexible connections will be a negotiated connection (standard control service).

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

159 CitiPower, *Information Request CitiPower #050 – Export LRMC and grid scale storage tariffs*, July 2025; Powercor, *Information Request Powercor #054 – Export LRMC and grid scale storage tariffs*, July 2025; , United Energy, *Information Request United Energy #047 – Export LRMC and grid scale storage tariffs*, July 2025.

We require CPU include in their revised proposals the information from those information requests and other relevant information that clearly describe their connection processes and fees, or how any connection fees will be calculated, and what a network support agreement would include. This might include details on how CPU will make available information on where storage would be most beneficial to the network, agreed available capacity, defined network support events per year and/or notification by network of support event by certain period.

We also accept CPU's indicative prices for flexible connections, and their consideration of residual cost recovery. We consider CPU's proposed prices reflect that flexible connections would be subject to operating constraints which are not imposed on other large customers.

13.5.8 Long run marginal cost methodology

Our draft decision is to not approve the proposed LRMCs on which CPU based their proposed tariffs in accordance with NER cl. 6.18.5(f). We require CPU to calculate LRMCs based on at least a 10-year time horizon for revised tariff structure statements. We also encourage CPU 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 NER cl. 6.18.5(f) of the NER. Further, while CPU's proposed AIC method to calculate import and export LRMCs might be an acceptable methodology, we require CPU to provide a better explanation of the forecast expenditure included in their LRMC models and explain why they consider this approach adequately captures the LRMCs of their networks.

13.5.8.1 Explanation of LRMC

The NER pricing principles require that network tariffs be based on LRMC.[160] 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:

- forecast long-run expenditure associated with incremental changes in demand for either import and export services.[161] This may comprise estimates of incremental demand driven augmentation expenditure (augex), opex associated with additional capacity, and

160 NER, 6.18.5(f).

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

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.[162]

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 our Export Tariff Guidelines. This includes demonstrating:

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

13.5.8.3 Proposed estimation methodology

CPU (along with AusNet and Jemena) used an AIC approach to calculate both their import and export LRMCs. CPU engaged Oakley Greenwood to calculate LRMCs for both imports from and exports to the network. In their 2021–26 tariff structure statements, CPU used a marginal incremental cost approach which is generally considered to be a more sophisticated approach that provides more accurate results. CPU's explanation for adopting the AIC method was that it is commonly used by distribution networks and appropriate where there is a consistent investment profile to service growth in demand, and it does not rely on a forecast of growth in demand that is materially different from those used in CPU's forecasts for other components of their regulatory proposals.[163]

The AIC method calculates the average cost of future load-driven capital investment by dividing projected demand related expenditure over a forecast period by expected growth in demand. Victorian distributors proposed forecast periods of 5 years for demand driven

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162 NER, 6.18.5(f).

163 CitiPower, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 8; Powercor, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 8; United Energy, *Tariff Structure Statement 2026-31 – Compliance Document*, January 2025, p. 8.

capex. However, they used periods of between 10 and 25 years for forecast opex and forecast demand, which are also inputs into calculating LRMC.

Stakeholder feedback

We received no submissions in response to CPU'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'. [164]

CPU considered that LRMC is only meaningful if it is based on a robust assessment of how forecast demand growth on each network asset would be met in the future, and that it is impractical for an electricity distribution network to calculate a "true" LRMC due the substantial effort required to develop long term forecasts and the future uncertainty about long term demand growth. CPU further noted, if the AER directs them to calculate LRMC over 10 years, it would be based on high level assumptions and LRMC would be no more accurate than the current values.[165]

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 CPU to use a forecast period of at least 10 years in their LRMC methods for their revised tariff structure statements.

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.[166] 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 CPU to improve their AIC methodology or consider other methodologies which may be better suited to today's environment. The perturbation method for example involves modelling small, hypothetical

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164 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.

165 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025; United Energy, *Information Request United Energy #036 – TSS*, June 2025.

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

increases in demand at specific locations across a network to observe the incremental impact on network costs.

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.[167] 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.[168] In our 2021–26 tariff structure statement decision we considered CPU's approaches to estimating LRMC to be good example of continual improvement.[169] 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 and Jemena to continue exploring ways to improve their methods, including to incorporate repex into their LRMC methods.

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 CPU (and the other Victorian distributors) did not refine their methods for estimating LRMC. It is also not clear why CPU decided to change from a marginal incremental cost approach to the AIC approach to estimating LRMC. The distributors also did not demonstrate the benefits of their chosen method compared to the costs of calculating and implementing LRMC using an improved method.

We strongly encourage CPU to improve LRMC methodology for both their import and export services and to provide more explanation regarding forecast expenditure and how the proposed expenditure is related to provision of services and forecasts for services. This

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

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

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

should include some explanation of underlying forecast demand driving incremental expenditure for both import and export services.

13.5.9 Allocation of residual costs

Our draft decision is to approve CPU's methods for calculating the recovery of residual costs. However, we encourage CPU to more thoroughly explain in their revised tariff structure statements what proportion of costs are residual and what proportion are LRMC, to better demonstrate compliance with NER 6.18.5(g).

Proposal

CPU provided some explanation in their tariff structure explanatory statements explaining how revenue recovered from each tariff reflects the total efficient costs of serving the customers assigned to it (NER cl. 6.18.5 (g)). For example, CPU have explained:

- residual cost recovery in flexible load tariffs is through fixed charges[170]
- no residual charges would be attributed to the export charges in the CER tariff[171]
- a thorough explanation of how residual costs would be recovered from flexible connection tariffs (see section 13.5.7).

CPU then provided information in responses to information requests explaining further the factors influencing allocation of residual costs across tariff components, which included:[172]

- historic allocation to minimise customer bill impacts arising from network cost chances
- peak to off-peak ratios
- expected revenue for each tariff class lying between standalone and avoidable costs
- whether the NUOS (network use of system) rates across all tariffs minimise pricing distortions between the different voltage levels of CPU networks.

CPU also provided a table which showed the proportion of LRMC and residual cost recovered through each charging parameter for each customer type.

Stakeholder feedback

We received no submissions on CPU's proposed method of allocating residual costs.

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

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170 CitiPower, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 44; Powercor, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 44; United Energy, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 44.

171 CitiPower, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 28; Powercor, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 28; United Energy, *Tariff Structure Statement 2026-31, Explanatory Statement*, January 2025, p. 28.

172 CitiPower, *Information Request CitiPower #020 – TSS*, May 2025; Powercor, *Information Request Powercor #019 – TSS*, May 2025; United Energy, *Information Request United Energy #017 – TSS*, May 2025; United Energy, *Information Request United Energy #036 – TSS*, June 2025.

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 LRMC.

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 (cl. 6.18.5(g)).

In practice we consider this means LRMC is 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).

We encourage CPU to more thoroughly explain how revenue recovered from each of their proposed tariffs reflects the total efficient costs of serving the customers, and include the information provided via information requests in their revised tariff structure statements.

13.5.10 Unmetered customer tariffs

Our draft decision is to require CPU to include further explanation in revised proposals to support changing the name of their unmetered tariffs to 'type 7 or type 9 metering' tariffs and ensure the tariff name is fit for purpose for the 2026–31 period.

CPU (like other distributors) have offered '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.

CPU have not proposed changes to the *structure* of the tariffs (a time-of-use tariff with no fixed charges, peak window 7am – 11am weekdays and off-peak at all other times). However, they proposed to change the name of the tariffs to 'type 7 or 9 metering' in response to the AEMC's 2024 *National Electricity Amendment (Unlocking CER benefits through flexible trading*) rule change,[173] which created 3 new meter types, including type 9 meters. CPU's intention for changing the name was under the assumption that type 9

[173] AEMC, *Unlocking CER benefits through flexible trading, Rule determination*, August 2024.

meters[174] would replace type 7 meters or type 7 metering is the alternative.[175] This would apply to 'smart' streetlighting and could also apply to curb side EV charging.

After 2026–31 proposed tariff structures were submitted, CPU communicated informally to us that type 9 metering has been defined by the AEMC to include loads up to 750 MWh per annum, and their type 7 or type 9 meter tariff structures are not appropriate for these larger customers.

Our view is that the intent of the AEMC's *Unlocking CER benefits through flexible trading* rule change is not for type 9 meters to necessarily replace 7, at least not in the near future. Arrangements related to type 9 metering for assets like street lighting curb side EV chargers will be implemented by 31 May 2026, with the majority of the other rules being implemented by 1 November 2026.

However, we recognise that the 2-rate time-of-use tariffs (with no fixed charges) are not 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 in future 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 CPU in revised proposals to include:

- explanation of how larger type 9 loads would be captured within their tariff structure statements and CPU's proposed assignment policies for these loads per NER cl. 6.18.1A(a)(2)
- how they would limit larger type 9 metered loads from accessing the 'type 7 or type 9' meter tariffs
- explanation on how the type 7 or type 9 meter tariffs are consistent with our draft decisions on metering (Attachment 15) and service classification (Attachment 11) in so far as they relate to type 9 meters.

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

13.6 Assignment to tariff classes

Our draft decision is to approve CPU's policies and procedures governing assignment or reassignment of retail customers to tariff classes for direct control services.[176] Table 13-7 summarises CPU proposed tariff class assignment.

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174 *Physical* meters for currently (and future) unmetered supplied where the device has the capacity to measure and report the energy it consumes or exports (like smart streetlighting and curb side EV chargers).

175 CitiPower, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 35; Powercor, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 35; United Energy, *Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, p. 35.

176 Linked to NER, cl 6.12.1(17).

CPU proposed to remove demand thresholds from small and medium business and large LV tariff classes - assignment to both tariff classes would be based on consumption only. CPU proposed no changes to their HV or sub-transmission tariff class assignment policies.

Table 13-7 Tariff classes for CPU

Tariff classes	2021-26 Customer type and assignment	2026-31 changes to customer type and assignment
Residential	Residential customers connected to the LV network	No changes
Small and medium business	Non-residential customers connected to LV networks consuming <160MWh per annum with <120kVA max demand	Non-residential customers connected to LV networks consuming <160MWh per annum
Large low voltage	Non-residential customers connected to the LV network consuming >160MWh per annum with >120kVA max demand	Non-residential customers connected to LV networks consuming >160MWh per annum
High voltage	Customers connected to the HV network	No changes
Sub-transmission	Customers with a connected to the sub-transmission network (> 22 000kV)	No changes

13.7 Tariff Structure Statement completeness

CPU must include the following elements within their tariff structure statements:

- 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 distributors have adopted, taking into account the pricing principle in clause 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 distributors will take in setting each tariff in each pricing proposal.[177]

CPU's tariff structure statements must be accompanied by an indicative pricing schedule.[178]

CPU's proposed tariff structure statements incorporate 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.

177 NER, cl. 6.18.1A(a)

178 NER, cl. 6.8.2(d1).

CPU has 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 statements that will bind CPU over the 2026–31 period.
- The second document should explain CPU's reasons for what they have proposed.[179]

[179] 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.[180] 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.[181] 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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180 AEMC, *Final Report Power of choice review – giving consumers options in the way they use electricity (Power of choice review)*, 30 November 2012.

181 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.[182] The AEMC considered that 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.[183] 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 LRMCs 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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182 AEMC, *Distribution network pricing arrangements rule change*, November 2014.

183 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.[184] 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.

[184] 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