Draft decision

Jemena electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 13 – Tariff structure statement

September 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER23008248

Amendment record

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13.1 Jemena and the regulatory framework for tariffs

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

Further, we are not satisfied that Jemena'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 Jemena has adequately justified the basic export level for its proposed residential export (two-way) tariff and large low voltage (LV) battery/storage tariff.

However, we do consider, in this round of tariff structure statements, that Jemena has proposed tariffs that make some progress on network tariff reform. Elements of its tariff structure statement support the price and emissions reduction elements of the NEO. In particular by encouraging consumption during periods when supply is dominated by renewable energy and supporting the efficient integration of consumer energy resources (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 the residential time-of-use tariff, an opt-in export / two-way pricing tariff for residential customers, a large LV battery tariff and site-specific tariffs for high voltage (HV) and sub-transmission customers.

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1 NER, cl. 6.12.3(k).

2 NEL, s. 7.

3 NEL, s 7.

We recognise that Jemena, along with AusNet, CitiPower, Powercor, United Energy (CPU) and Jemena, are somewhat constrained in proposing a more progressive assignment of small customers with smart meters to cost reflective tariffs. This is because the Victorian Government does not support the mandatory assignment of small customers to cost reflective tariffs. In this context we encourage Jemena 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 Jemena's proposed customer communication and education initiative forms part of its efforts to communicate benefits to those consumers.[4]

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

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

13.1.1 Implementation of reform in Victoria

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

The pace of network tariff reform for small customers is relatively slow in Victoria compared to other NEM jurisdictions, despite Victoria's nearly 100% smart meter penetration (compared to a NEM average of approximately 52%).[6] This is driven in large part by the

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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.

6 2024 Annual Regulatory Information Notices.

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 increase in demand Jemena forecast from the electrification of transport and gas[10] and the potential for this to contribute to demand-driven capex in future regulatory periods. While Jemena has relatively high capacity utilisation relative to other networks in the NEM, at approximately 55%,[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. Jemena has incorporated network tariffs in its wider proposal in the following ways:

- its demand forecast includes AEMO's EV charging profile which incorporates a gradual reduction in EV charging during peak demand periods in response to time-of-use tariffs[12]
- it explained that tariffs can help manage minimum demand risk.[13]

However, Jemena has not otherwise assumed any reduction in peak demand due to residential time-of-use tariffs because it considers that there has been no significant consumption response to residential time-of-use pricing signals.[14]

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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 Jemena Electricity Networks, *JEN 2026-31 Regulatory Proposal*, January 2025, p. 72.

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

12 Jemena Electricity Networks, *JEN 2026-31 Regulatory Proposal*, January 2025, p. 38; Jemena Electricity Networks, *JEN Att-5.01 Capital Expenditure,* February 2025, pp. 45-46.

13 Jemena Electricity Networks, *JEN Att-5.01 Capital Expenditure,* February 2025, p. 7.

14 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, pp. 8-9.

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

Further, AusNet's coordination group noted that the absence of mandated cost-reflective pricing has limited the ability of Victorian distribution networks to use targeted price signals to encourage efficient and future-focused energy usage patterns and to allocate CER enablement costs more fairly.[17] Similarly, AusNet's Tariffs and Pricing Panel agreed that there is a need for a broader communication strategy, which includes communication on how customers can benefit by responding to signals.[18] CPU's customer advisory panel supported the tariff assignment policies in the context of the Victorian Government's ruling, but also recommended the Victorian distributors continue to work with the Victorian Government to assign small customers to time-of-use tariffs over the 2026–31 period in a way that manages impacts to vulnerable customers. They also encouraged CPU to explore other ways to ensure the costs of CER and electrification enablement are distributed fairly, including by promoting the benefits of optional time-of-use tariffs to customers who would materially benefit from it.[19]

Finally, in reference to Jemena's statement that there has been no consumption change in response to time-of-use tariffs, the Electric Vehicle Council noted that Jemena's analysis was based on responses to *network tariffs* rather than retail tariffs, and does not reflect customer responses, particularly customers with EVs, to time variable retail tariffs.[20] In this context, we reiterate that distributors should exhaust the levers to drive efficiency and utilisation of the network, and that tariffs (including controlled load tariffs) play an important role in this.

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

- SA Power Networks, which has had time-of-use tariffs with a solar soak period for small customers since 2020 (including controlled load tariffs with the same charging windows

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

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

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

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

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

20 The Electric Vehicle Council, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 5.

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.[21]

- 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.[22]
- Early results from Ausgrid's current critical peak pricing *trial* tariff for small business customers[23] 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.[24]
- 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.[25]
- 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.[26]
- 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.[27]

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)).[28] Jemena, in its revised proposal, should further consider the capacity of its tariff designs to incentivise a response, including with reference to its proposed tariff communication campaign, and should further integrate its tariff strategy (with reasonable anticipation of responsiveness to its tariffs), into the relevant elements of its broader regulatory proposal, including demand forecasts and expenditure proposals.

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

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

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

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

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

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

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

28 NER cl. 6.8.2(c1)(1).

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

- Considering further whether any perceived lack of response to Jemena's time-of-use tariff may be influenced by retailer smoothing/muting of network price signals. Jemena provided some analysis in a response to an information request demonstrating that the peak-to-off-peak price ratio in retail offers in its network is approximately 2 times weaker than Jemena's residential time-of-use network tariff, which could be a factor affecting customers responsiveness to network price signals.[29]
- Considering whether any perceived lack of response may be influenced by Jemena's analysis being of customers assigned to cost reflective network tariffs, which obscures that a portion of customers on time-of-use network tariffs are on flat retail offers and see no time-based price signals to which they could 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 Jemena's proposed export tariff and inclusion of a solar soak period in the residential time-of-use tariff, and in response to increased numbers of customers assigned to cost reflective network tariffs (albeit this increase is occurring slowly in Victoria).
- Creating a tangible plan to increase take-up of cost-reflective network tariffs or have a more ambitious transition path that is still consistent with Victorian Government's requirements. This could include providing more information on its proposed tariff communication initiatives aimed at incentivising take-up of cost-reflective tariffs.
- Considering 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.

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.[30] The price responsive nature of CER or smart appliances opens new opportunities for networks to mitigate investment needs using charges for critical demand and supply events. That is, sharper price signals that might be locational and/or include layering of short-run signals on tariffs still based on LRMC. However, the need for simpler network tariff options based on long-run signals, and geographical averaging, will remain for a significant proportion of customers who prefer more predictable costs.

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

30 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.

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 Jemena's proposed 2026–31 tariff structure statement. While we are satisfied many elements of the proposed tariff structure statement comply with the pricing principles, and contribute to the achievement of the network pricing objective (NPO),[31] 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.[32,33]

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

- residential tariff structures and tariff assignment policies, excluding the opt-in residential export tariff
- small business tariff structures
- medium and large business tariff structures
- site-specific tariffs
- tariff class and assignment policies
- residual cost allocation.

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

- the LRMC methodology based on 5-year forecasts for demand driven capex is not consistent with our view of the long-run (10+ years) and we consider does not comply with pricing principle (per NER cl 6.18.5(f))
- the network bill impact analysis for small customers moving from withdrawn tariffs to standard tariffs (per NER cl. 6.18.5(h) and NER cl. 6.18.5(i))
- proposed changes to small business tariff assignment, because tariff assignment policies are not clear in accordance with NER cl. 6.18.1A(a)(2)
- justification of the proposed basic export level of 1 kWh/day (per NER cl. 11.141.13(b)(1)(i)) and calculation of the export LRMC based on a 5-year forecast (per NER cl 6.18.5(f)).

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

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31 NER, cl. 6.18.5(a).

32 NER, cl. 6.12.3(k).

33 NEL, s. 7.

- calculate the LRMC for both import and export services using forecasts based on at least a 10-year period (see section 13.5.8)
  - 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[34] of 1 kWh/day for the export tariff and the large battery tariff
- include a description of its proposal to discount the residential time-of-use tariff relative to the flat tariff by 1% each year to ensure stakeholder understanding of its proposal (see section 13.5.3.3)
- include complete network bill impact analysis for all customer types on any proposed changes to tariffs (see sections 13.5.3.4, 13.5.5)
- provide further information set out in section 13.5.3.1 explaining small business tariff assignment policies to comply with the requirements in NER cl. 6.18.1A(a)(2)
- clearly set out the structure, charging periods and assignment policies of the proposed battery tariff and provide indicative prices, including an explanation of whether any charges set to zero could change over the next regulatory period and under what circumstances (see section 13.5.7)
- include further information set out in section 13.5.6 on eligibility of the proposed site-specific tariffs and to clarify whether opt-out to a standard tariff is offered, to comply with the requirements in NER cl. 6.18.1A(a)(2) and NER cl. 6.18.1A(a)(5)
- include further consideration of unmetered tariffs to account for future type 9-meter loads and whether the tariff name (unmetered tariffs) is fit for purpose for the 2026–31 period (see section 13.5.3.6).

We also encourage Jemena to make the following changes to further improve its tariff structure statement:

- 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
- further consider the capacity of tariff designs to incentivise a behavioural response, including with reference to the proposed tariff communication campaign, and to provide further information on the campaign
- make it clearer that the small business (customers consuming less than <40 MWh per annum) single rate tariff is the default tariff *only* for customers on accumulation meters

[34] 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.

- 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
- consider development of a controlled load tariff for new residential customers with a 24-hour supply window
- 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
- consider including further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards
- be clearer on which medium and large tariffs will be closed to new customers and which will be withdrawn from Jemena's suite of tariffs in the 2026–31 period
- 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.

13.3 Jemena's proposal

In response to a changing network and regulatory environment, Jemena proposed some changes to its current tariff structure statement including the introduction of several new tariffs for the 2026–31 regulatory period.

For residential customers, proposed changes include:

- a new default time-of-use tariff with a daytime solar soak component, to encourage customers to use as much electricity as possible in the middle of the day when solar power generation is at its highest
  - residential customers on Jemena's existing time-of-use tariff and existing demand tariff would be reassigned to its new daytime saver (solar soak) tariff
- an optional two-way tariff to encourage customers, especially those with home batteries, to support the network by exporting electricity back to the grid during times of peak network demand
- withdrawal of the residential demand tariff due to limited uptake in the current regulatory period, with customers to be reassigned to the relevant default tariff.

For large business customers, proposed changes include:

- a tariff for battery customers, encouraging the use of large batteries, particularly in residential areas
- new site-specific tariffs for customers with distinct load profiles for which existing tariffs may not be suitable
- removal of transitional tariffs for those customers who during the current regulatory period were being transitioned to fully cost reflective summer demand incentive charge (SDIC) tariffs to apply from the start of the 2026–31 regulatory period.

Jemena did not propose any major changes to its suite of small and medium business tariffs except for the removal of one of its small and medium business demand tariffs (A20D), which only has 12 customers, and the reassignment of customers on this tariff to the relevant default tariff for their size and usage.

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.[35]

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).[36]

13.4.1 What must a tariff structure statement contain?

The NER require a tariff structure statement to include:[37]

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

A distributor's tariff structure statement must be accompanied by an indicative pricing schedule.[38]

Our preference is for distributors to structure their tariff structure statement compliance document in accordance with our standardised template.[39]

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.[40]

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35 NER, cl. 6.18.1A(a).

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

37 NER, cl. 6.18.1A(a).

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

39 AER, *Standardised TSS Compliance Template*.

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

Broadly the pricing principles require:

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

13.4.3 How we assess tariff structure statement proposals

We assess tariff structure statements against the requirements of the NER and the National Electricity Law (NEL) including the pricing principles and other applicable requirements of the NER.[41] We are also required to make our decisions in a manner that will or is likely to contribute to the achievement of the NEO.[42] 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.[43]

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[44]
- 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).

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

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

43 NER, cl. 6.18.1A(b).

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

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 Jemena commenced several months prior to formal submission. This included observing stakeholder engagement sessions and working closely with Jemena to support development of its tariff structure statement.

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

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

The AEMC's *Access, pricing and incentive arrangements for distributed energy resources* rule change in August 2021 enabled distributors to introduce two-way pricing.[45] We have since approved two-way tariffs / export reward tariffs for New South Wales and South Australian distributors. We assess any two-way pricing proposals with regard to the AEMC's rule change and the guidance provided in our *Export Tariff Guidelines*.[46]

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.[47]

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

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45 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.

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

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

- Stakeholder support for Jemena's tariff structure statement
- Small customer tariffs (residential and small business)
- Two-way tariffs (proposed for residential customers only)
- Medium and large business customer tariffs
- Site-specific tariffs
- Grid scale storage tariffs
- Long run marginal cost methodologies
- Allocation of residual costs

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

We consider Jemena's proposed tariff structures do not sufficiently demonstrate compliance against all of the pricing principles in NER cl.6.18.5 (e) to (j).

- Jemena 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, **(g)** – the revenue recovered from each tariff reflects the total efficient costs of serving the retail customers on the tariff, **(i)** - tariffs can generally be understood by retail customers or incorporated by retailers into retail offers and **(j)** – that tariffs are generally consistent the NEL, contribute to the achievement of the NEO and other applicable instruments.
- Jemena has not demonstrated compliance with principle **(f) -** while Jemena based its tariffs on a calculated LRMC it used 5-year forecasts for its calculation rather than a time horizon representative of long-run. This is explained further in section 13.5.8.
- Jemena has also not demonstrated compliance with principle **(h) –** there are parts of Jemena's tariff structure statement that should, or could, include further network bill impact analysis although we consider it has been provided via responses to information requests.[48,49] Network bill impact analysis is discussed throughout section 13.5.

13.5.2 Stakeholder support for Jemena's tariff structure statement

Customer input is important in developing tariffs since their ultimate objective is to influence consumer behaviour. We observe Jemena generally engaged well with stakeholders in developing its 2026–31 tariff structure statement. More generally, we observe that Jemena's

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

[49] Jemena Electricity Networks, *Information Request Jemena #010 – TSS-LRMC*, May 2025.

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 Jemena's proposed tariff structure statement, 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 Jemena's Energy Reference Group (ERG) recommended that Jemena undertake better direct communication with consumers, and coordination with retailers to facilitate implementation of opt-out tariffs or dynamic operating envelope tariffs based on seasonality.[50] It also recommended a number of improvements for Jemena's proposed large customer tariffs around customer understanding and efficiency.[51] Our draft decision reflects this, and encourages Jemena to engage meaningfully with its larger customers to inform its revised tariff structure statement.

13.5.3 Small customer tariffs (residential and small businesses consuming <40 MWh per annum)

Our draft decision is to approve Jemena's proposed residential customer tariffs and assignment policy (not including the proposed opt-in two-way tariff). While we approve Jemena's proposed small business customer tariff structures, we require Jemena to provide further clarity on its small business tariff assignment policy for customers being reassigned from withdrawn tariffs. We also require Jemena to include further network bill impact analysis of changes to small customer tariffs. Finally, we require Jemena to make it clearer that it intends to extend tariff discounting in the 2026–31 period of the more cost reflective residential tariffs relative to the less cost reflective (single rate/flat) tariffs. We also encourage Jemena to make some improvements, including consideration of controlled load tariffs for new customers, and offering more optional tariffs aimed at managing flexible loads.

We acknowledge that Jemena allocates 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

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50 Jemena Energy Reference Group, *Submission on Jemena's Regulatory Proposal 2026-31*, May 2025, p. 11.

51 Jemena Energy Reference Group, *Submission on Jemena's Regulatory Proposal 2026-31*, May 2025, p. 12.

business (business customers consuming <40 MWh per annum) tariffs with residential tariffs because there are similar / overlapping issues for both groups.

Jemena proposed to:

- introduce a new default residential time-of-use tariff which includes a very low-priced solar soak period (11am – 4pm)
- continue to discount the residential time-of-use tariff by an additional 1% per year relative to the single-rate tariffs so that by 2031, the time-of-use tariff will be on average 10% lower than the single-rate tariff
- introduce a new opt-in two-way tariff for residential customers (see section 13.5.4)
- withdraw its residential demand tariff and one small business demand tariff
- expand its IT capability to deliver integrated customer education programs that build energy literacy, enhance customer experience and improve the accessibility of information.

13.5.3.1 Jemena's small customer tariff assignment policies

Our draft decision is to approve Jemena's residential tariff assignment but not the small business tariff assignment policies. We require Jemena to provide clarity on the tariff assignment policy for small business customers on tariff A20D, which Jemena proposed to close, to comply with NER cl. 6.18.1A(a)(2).

We also encourage Jemena to:

- make clearer in its tariff structure statement which customers would be assigned by default to its small business single rate tariff
- engage with retailers and the Victorian Government on the benefits to the network of smart meter customers facing cost reflective tariffs
- encourage existing customers to opt-in to default time-of-use tariffs in the 2026–31 period, including through its proposed communication campaign.

Jemena's proposal

For small customers Jemena proposed:

- *current* default time-of-use residential tariff be withdrawn, and customers on these tariffs be assigned to the *new* proposed residential time-of-use tariff
- 168 customers on the optional residential demand tariff (proposed to be withdrawn) to be reassigned to the new residential time-of-use tariff on 1 July 2026
- 12 customers on the small business demand tariff (tariff A20D proposed to be withdrawn) to be reassigned to the relevant default tariff
- new customers and existing customers who upgrade to three-phase, install CER capable of exporting energy back into the network, 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, a flat tariff or the proposed opt-in two-way tariff
  - for small business customers, a flat tariff
- 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 the hot water (controlled load) tariff would remain on these tariffs
- to withdraw legacy premium feed-in variations of small customer tariffs because the feed-in scheme ended in October 2024.[52]

Stakeholder feedback

Origin Energy and some of Jemena's ERG supported the withdrawal of the current residential demand tariffs[53] and the Victorian Government maintained support for default time-of-use tariffs for new customers.[54] 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.[55]

AER considerations

Consistent with Victorian Government policy to provide multiple tariff options for residential customers,[56] and our previous decisions that encourage tariff optionality for small customers, Jemena proposed to retain a choice of tariff offerings for small customers. In the context of the Victorian Government's position against mandatory assignment to cost reflective tariffs, we accept Jemena's residential 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.[57]

Further, Jemena's approach to residential 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. Jemena does this, for example, by proposing to automatically assign small customers upgrading to solar or installing batteries to the default time-of-use tariff and not allowing customers with fast EV chargers the option to opt-out of cost reflective tariffs. On the latter point, we note that there is currently no formal mechanism in place to identify customers with EV fast chargers, but that the Victorian Government expects a formal

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52 Jemena Electricity Networks, *2021-26 Tariff Structure Statement – Attachment A Tariff Assignment and Reassignment Policy*, December 2020, p. vi.

53 Origin Energy, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 1; Jemena Energy Reference Group, *Submission on Victorian Electricity Distribution Proposals 2026-31,* May 2025, p. 11.

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

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

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

57 NER, cl. 6.18.5(h).

mechanism to be introduced within the 2026–31 period.[58] 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.[59]

We also approve Jemena's proposal to reassign customers currently on the residential demand tariff to the proposed time-of-use tariff. Jemena estimated that the median residential customer would be better off from this change by about 2%.[60] We consider withdrawal of this tariff is acceptable at this time because most affected customers would be better off if reassigned to a different tariff. Further, residential customers will continue to be offered a choice of network tariff, and removal is supported by stakeholders.

However, we require Jemena to make its tariff assignment policy for those customers on the proposed withdrawn small business tariff A20D clearer. A tariff structure statement is required to include the policies and procedures for assigning retail customers to tariffs or reassigning retail customers from one tariff to another under NER, cl. 6.18.1A(a)(2). We consider default and optional reassignment of customers currently on tariff A20D is not clear and was not sufficiently clarified in a response to an information request.[61] For example, Jemena stated that some customers could be assigned to its closed A270 tariff.

We require Jemena to include in its revised tariff structure statement:

- details on to which tariff it will assign customers on the withdrawn small business demand tariff A20D, and the impact to these customers
- clarification on whether tariff A270 will remain closed or not, and if it is not closed which customers can access that tariff.

Further, Jemena's tariff structure statement has inconsistent or confusing statements on whether the small business flat rate tariff is the default tariff for customers consuming <40 MWh per annum.[62] [63] For example, its tariff structure statement states that the flat tariff is the default tariff for these customers,[64] but appendix B of its explanatory statement states that the time-of-use tariff is the default tariff. We encourage Jemena to make it clear that while small businesses (other than those with dedicated EV chargers) can *opt-out* to the flat tariff, the small business time-of-use tariff is the default tariff for customers with smart meters and the flat tariff is the default tariff for customers with accumulation meters.

We also encourage Jemena to engage with retailers and the Victorian government on the benefits to the network of more smart meter customers facing cost reflective tariffs, the perceived and real bill impacts (short and long-term) of more customers being assigned to cost reflective network tariffs, and to further encourage existing customers on flat tariff structures to move to the more cost reflective time-of-use tariffs. We consider that further

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

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

60 Jemena Electricity Networks, *Information Request Jemena #010 – TSS*, May 2025.

61 Jemena Electricity Networks, *Information Request Jemena #003 – TSS Clarifications*, May 2025.

62 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 14.

63 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, pp. 20-21.

64 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31*, January 2025, p. 14.

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 Jemena's efficient costs of providing services to them).[65] We also encourage Jemena to include more information in its revised proposal on how its proposed communication campaign will encourage take up of these tariffs in the 2026–31 period.

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

Our draft decision is to approve Jemena's proposed small customer tariff structures (i.e. charging parameters and charging periods). We consider Jemena'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 Jemena 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 Jemena 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.

Jemena's proposal

Jemena 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 the 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	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	Daily supply charge Peak charge 9am – 9pm (weekdays) Off-peak charge all other times	No change

Source: Jemena Electricity Networks, *2021-26 Tariff Structure Statement,* July 2021, p. 11, 13; Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 11, 28.

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

Stakeholder feedback

Submissions from Origin Energy and the Victorian Government supported the solar soak window proposed by all Victorian distributors for residential customers.[66] Stakeholders at the third joint Victorian distributor workshop also supported the simplicity of the proposed time-of-use tariff with a solar soak window but acknowledged it might be unfair for those customers who cannot shift behaviour.[67]

For small businesses, the CCP32 recognised that Jemena, along with AusNet and CPU, 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 this paper was limited, and it did not see evidence that those stakeholders who made early submissions were informed on small business tariff deliberations in the lead up to Jemena publishing its proposals.[68]

Jemena and the CCP32 noted that in response to the small business consultation paper[69] several stakeholders suggested the distributors could consider solar soak periods for small and medium business customers.[70]

AER considerations

Since 2021, the Victorian distributors have jointly proposed, and received support from their stakeholders, 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.

Jemena's proposed charging windows reflect the congestion/constraints imposed on the network by its small customers. Its proposed solar soak, peak and off-peak charging windows for residential customers align reasonably with its residential load profiles. Figure 13.1 compares annual average net demand in Jemena's network for residential customers between 2020 and 2024.

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

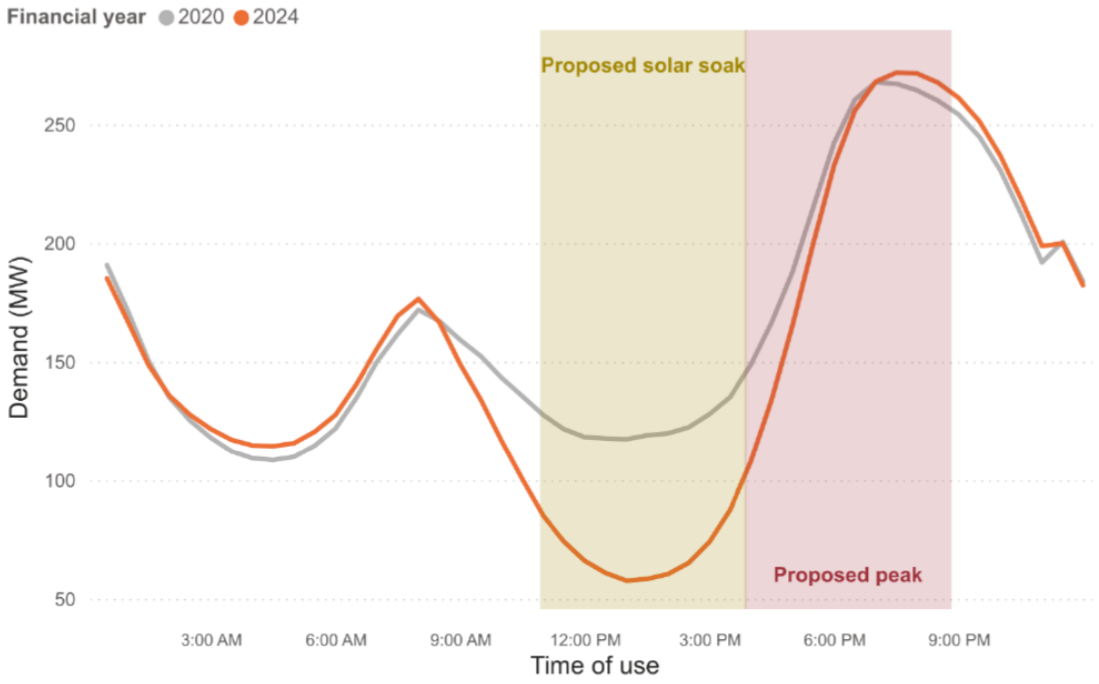
67 Victorian distributors, *Victorian Distribution Network Service Providers Tariff Workshop 3 – Summary Report*, April 2024, p. 11.

68 CCP32, *Submission on Jemena electricity distribution proposal 2026-31,* May 2025, p. 34:

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

70 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 32; CCP32, *AusNet - Submission on Victorian Electricity Distribution Proposals 2026-31*, May 2025, p. 38

Figure 13.1 Annual average net demand profile for residential customers



Source: Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 16, figure 5-6.

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 Jemena made no changes to its proposed small business tariff structures but, like the other Victorian distributors, considered introducing a solar soak period for its small business customers and decided against doing so. In their tariff structure statements and responses to information requests,[71] the Victorian distributors considered that incentivising increased consumption through a solar soak period could exacerbate peak demand in zone substations servicing small businesses. Jemena report that 75% of distribution substations serving small businesses peak between 9am – 9pm.[72] Figure 13.2 shows the small and medium business annual consumption in Jemena's network for each of the financial years between 2020 – 2024, demonstrating that consistent with proposed small business peak charging windows, small business electricity use peaks during the day.

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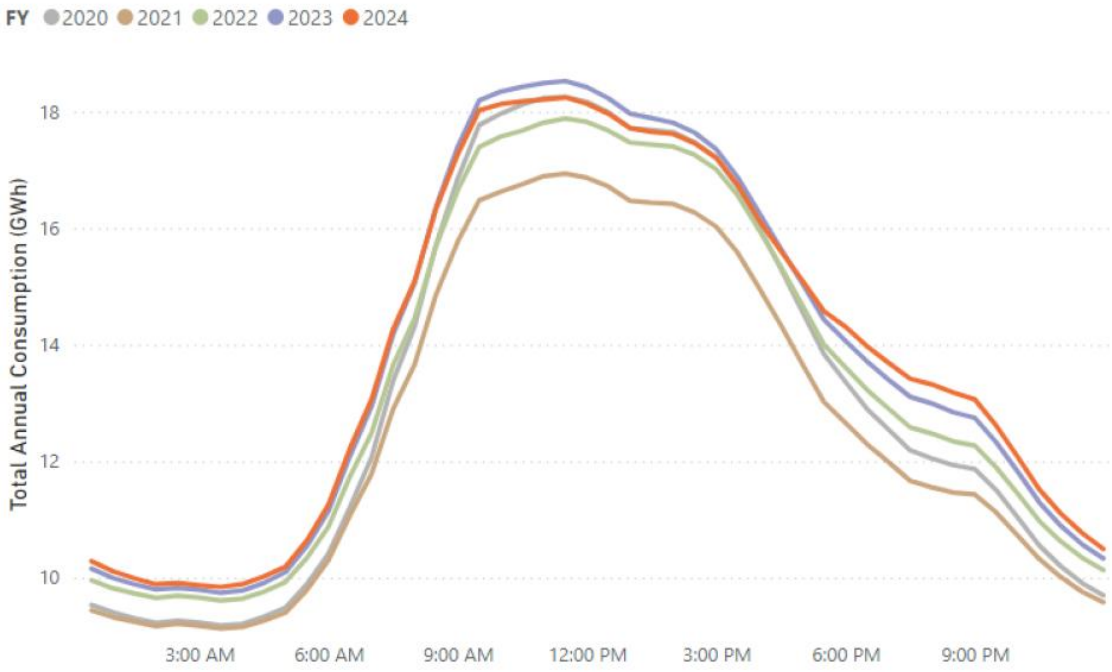
71 In information requests, we asked the Victorian distributors whether the proposed peak windows for small business customers align with the broader LV network constraints, particularly the interrelation (if any) with residential customer peaks.

72 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 31.

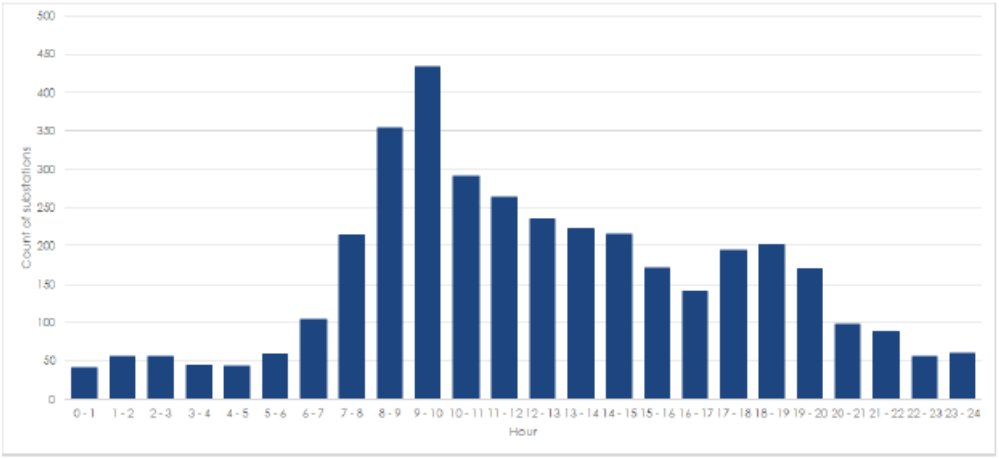
Figure 13.2 Small and medium business customer annual consumption



Source: Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 30, figure 7-1.

Further, Figure 13.3 demonstrates that the maximum demand of substations supplying small business customers across Victoria is highest between 7am – 8pm.

Figure 13.3 Maximum demand of Victorian substations supplying small business customers



Source: Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 31, figure 7-3.

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 Jemena 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 Jemena 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 Jemena'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 Jemena's proposed peak to off-peak price ratios for small customer tariffs, including proposed (continuation of) discounting of the residential time-of-use tariff relative to the flat tariff. However, we consider that its tariff structure statement does not clearly explain its proposed tariff discounting. We require Jemena to include in its revised tariff structure statement further information that it has provided to us in information requests confirming that it will continue to discount its residential time-of-use tariff,[73] to comply with NER cl. 6.18.5(i).

Jemena's proposal

Jemena's indicative tariff levels for 2026–27 continue its current approach to network tariff reform. Jemena 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.[74] 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.[75]

Jemena proposed to increase the peak to off-peak ratio (calculated from indicative price schedules) for the residential customer time-of-use tariff from 3.5:1 (2025 approved prices) to 4:1. It also proposed to introduce a solar soak to peak ratio to 22:1. Jemena proposed to maintain the small business time-of-use peak to off-peak ratio of approximately 4.7:1.

Stakeholder submissions

Origin Energy supported tariff discounting for all Victorian distributors.[76] The Electric Vehicle Council supported sharply priced time-of-use tariffs to encourage EV usage outside of peak

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73 Jemena Electricity Networks, *Information Request Jemena #003 – TSS Clarifications*, May 2025.

74 Jemena Electricity Networks, *Information Request Jemena #003 – TSS Clarifications*, May 2025.

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

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

times.[77] However, other submissions also recommended that distributors explore further options/engagement on tariffs to encourage take-up of time-of-use tariffs.[78]

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 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.[79]

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.

Jemena makes one broad reference to its tariff discounting in its tariff structure statement,[80] but does not explicitly state that it will continue to discount the residential time-of-use tariff by 1% compared with its flat tariff. We consider this should be clear to stakeholders for compliance with NER cl. 6.18.5(i)

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 otherwise consider that Jemena's proposed small customer peak to off-peak and peak to solar-soak ratios are consistent with stakeholder preferences and are capable of acceptance.

13.5.3.4 Network bill impact analysis

Our draft decision is to not approve Jemena's small customer bill impact analysis. We require Jemena to provide further network bill impact analysis on the impact of its proposal to withdraw residential and small business demand tariffs, in accordance with NER cl.

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

78 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).

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

80 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 7.

6.18.5(h). We also require Jemena to provide this information to enable stakeholders to better understand the impacts tariffs have on them per NER cl. 6.18.5(i).

We otherwise consider Jemena's small customer bill analysis to be thorough. Jemena's explanatory statements provided that a residential customer with *average* consumption is likely to be better off on the proposed new time-of-use tariff.[81] It also demonstrated that the average customers would be better off moving from the flat tariff to new time-of-use tariffs, but that solar customers might be marginally worse off from being reassigned from the current time-of-use tariff to the proposed new structure. [82]

Further information provided in response to an information request demonstrated that the median residential and small business customer will be better off from being reassigned from withdrawn demand tariffs to relevant tariffs.[83]

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 Jemena should include analysis (provided in information requests) on the impact of withdrawing residential and small business demand tariffs in its revised tariff structure statement.

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 Jemena's proposed residential off-peak hot water (controlled load) tariff. However, we encourage Jemena to consider the benefits of including in its revised tariff structure statement a new controlled load tariff, or modifying its existing tariff, to include 24-hour supply that is open to new and existing residential customers, and that could be extended to flexible load like EVs.

Jemena's proposal

Jemena proposed to retain its residential controlled load tariff, a secondary tariff to Jemena's single rate tariff. This tariff has been closed to new customers for multiple regulatory periods and has only a small number of customers assigned to it (we understand that there are about 7000 customers participating). Controlled load supply to this tariff is available 11pm – 7am and not during the day. [84]

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81 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 26.

82 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-3 - Explanatory Statement,* January 2025, p. 26.

83 Jemena Electricity Networks, *Information Request Jemena #010 – TSS*, May 2025.

84 Jemena Electricy Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 13.

Stakeholder feedback

AGL submitted that the Victorian distributors should introduce dedicated circuit tariffs allowing for 24-hour flexibility of supply as well as enable *retailer* scheduling of supply to controlled load circuits. AGL considers that retailer control can better align supply with wholesale costs than distributor control.[85]

Jemena's ERG also recommended that flexible tariff structures for direct load control could be considered.[86]

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 acknowledge that Jemena's controlled load tariff is a legacy tariff, and it has not consulted with its stakeholders on the further benefit of or need for distributor or retailer control. However, we consider Jemena could explore the network and customer benefits of controlled load tariffs with 24-hour supply open to all residential customers. Availability of controlled load tariffs is particularly relevant in the context of Jemena's forecast population growth. Jemena currently has 349,373 customers; it expects residential and greenfield population growth to double in its western corridor by 2046 and to increase by 50% by 2041 in its northern corridor.[87]

We also encourage Jemena to consult with stakeholders on whether a new controlled load tariff could be expanded to include other flexible loads. Flexible load orchestration of controlled loads could help to shift customer loads away from peak periods, manage minimum and maximum demand events and defer future capex.

In consideration of AGL's submission, we also encourage Jemena to explore retailer-led control for any new controlled load tariffs. There is evidence from SA Power Networks that retailer-led controlled load resulted in roughly 27% movement from electricity usage away from peak time and into the solar soak period for customers on controlled load tariffs.[88]

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

86 Jemena Energy Reference Group, *Submission on Jemena's Regulatory Proposal 2026-31*, May 2025, p. 11.

87 Jemena Electricity Networks, *Att. 5-01 Capital Expenditure; 2026-31 Electricity Distribution Price Review Regulatory Proposal,* January 2025, p. 44

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

13.5.3.6 Unmetered customers / consideration of type 9 meters in tariff structure statement

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

Distributors typically offer 'unmetered' tariffs for unmetered supplies which have small loads, where the connection to the network is not equipped with a physical meter and has estimated consumption (e.g. public lights and traffic lights). This load is currently 'type 7 metered load', where consumption is calculated using load tables. Within Jemena's tariff structure statement, its unmetered tariff is not explicitly linked to type 7 metering services, but we understand that unmetered supply is generally connected to type 7 metering services.

The AEMC's *National Electricity Amendment (Unlocking CER benefits through flexible trading*) Rule 2024 created 3 new meter types, including type 9 meters.[89] Type 9 meters (currently and in the future) are for unmetered supply where the connected device has the capacity to measure and report the energy it consumes or exports. This could apply to 'smart' streetlighting and could also apply to kerb side EV charging. Further, type 9 metering has been defined by the AEMC to include loads up to 750 MWh per annum. Our view is that the intent of the *Unlocking CER benefits through flexible trading* Rule is not for type 9 meters to necessarily replace type 7 meters, at least not in the near future. Arrangements related to type 9 metering for assets like street lighting and kerb side EV chargers will be implemented by 31 May 2026, with most of the other rules being implemented by 1 November 2026.

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

We therefore require Jemena in its revised tariff structure statement to include:

- further consideration of whether 'unmetered' is an appropriate name for this tariff
- further explanation of larger type 9 loads and Jemena's proposed tariff assignment for those loads per NER cl. 6.18.1A(a)(2)
- further explanation on how the unmetered tariff is 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 Jemena's tariff structure statement has adequately considered the AEMC's *National Electricity Amendment (Unlocking CER benefits through flexible trading*) Rule 2024.

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

13.5.4 Two-way tariffs

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

- re-calculate the export LRMC over a minimum 10-year period (for reasons discussed in section 13.5.8)
- justify the proposed basic export level of 1 kWh/day.

We also encourage Jemena to consider including in its revised tariff structure statement further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards.

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

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

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

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

92 NEL, Part 1, s.7.

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

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

All Victorian distributors proposed export charges largely based on their export LRMCs, such that export charges only recover avoidable costs attributable to the provision of export services (no residual or historical costs). For example, Jemena proposed an export LRMC of 3 c/kWh and therefore an export charge of approximately 3 c/kWh. Apart from AusNet's export reward, Victorian distributors' export rewards are similarly based on their respective peak import LRMCs. Table 13.2 sets out the proposed export rewards and charges.

Table 13.2 Comparison of the Victorian distributors proposed two-way tariffs

Distributor	Export charge (11am – 4pm)	Export reward (4pm – 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.

Jemena noted that its two-way tariff is likely to be of most interest to battery customers who can self-consume their solar energy between 11am – 4pm and export later in the day during the peak period.[94] 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.[95]

Jemena provided customer archetypes for its indicative bill impact analysis.[96] A 'Couple with solar' (low consumption, so capacity to export during the late afternoon) would have a net annual export *reward* of $64. While a 'Young family with solar' (high consumption during the evening peak period, so less capacity to export during late afternoon) would have a net annual export *charge* of $11, an 'Established family with solar and battery' (high consumption, but self-consuming stored electricity in the peak hours) would have a net annual export *reward* of $24.

Jemena consulted on two-way tariffs at the second and third (of 3) joint Victorian distributor workshops. Jemena 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

94 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-31 – Explanatory statement,* January 2025, p. 19.

95 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.

96 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-31 – Explanatory statement,* January 2025, pp. 26 - 27.

customers, and price signals should have stronger locational signals versus weaker non-locational signals.[97]

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.[98]

The Electric Vehicle Council submitted that potential vehicle to grid (V2G) customers may not take up the CER (two-way pricing) tariffs, since access to export rewards is inextricably linked to export charges.[99] The Electric Vehicle Council stated the presence of an export charge might dissuade customers from opting-in to the CER tariff, as the standard time-of-use tariff does not contain any export charges. The Electric Vehicle Council indicated it would prefer either there be export charges on all tariffs or none, so that the export reward signal for the opt-in CER tariff is more apparent.

Origin Energy recognised that because the export tariffs are proposed to be opt-in, ensuring the tariffs are sufficiently attractive would be challenging. Origin acknowledged that while the proposed export tariffs are relatively basic, they are largely intended to introduce customers to the concept of export tariffs and progress behaviour change. Origin stated that it expects export tariffs will be refined over time as the impact of EV penetration and charging patterns and the response to proposed time-of-use tariffs becomes clearer.[100]

Jemena's ERG submitted that some of its members opposed Jemena's two-way tariff, however, no consensus was reached on tariffs overall.[101] Some members cautioned against penalising customers who invest in CER, although also acknowledged that the tariff is intended to encourage self-consumption and modify customer behaviour. The submission also proposed that alternatives to two-way pricing should be considered which may address minimum demand issues without discouraging CER investment, for example, controlled flexible demand (i.e., hot water systems, pool pumps) and storage solutions.

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

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97 Jemena Electricity Networks, *Att 01-13 Joint VICDB engagement – Tariff outcomes report 2,* December 2023, pp. 9 – 12; Jemena, *Att 01-14 Joint VICDB engagement – Tariff outcomes report 3,* April 2024, pp. 14 – 15.

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

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

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

101 Jemena Energy Reference Group, *Submission on Jemena's Regulatory Proposal 2026-31*, May 2025, p. 11.

options for the two-way pricing tariff were offered and discussed in the workshop, and no consensus was reached on preferences.[102]

13.5.4.2 AER consideration on two-way tariffs

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

Jemena satisfied the NER two-way pricing customer protection requirements[103] 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 Jemena's (or the other Victorian distributors') rationale for a 1 kWh/day basic export level outweighs the limited links to network intrinsic hosting capacity in its tariff structure statement and proposal.

Jemena 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.[104] We acknowledge the views in the ERG's submission, although consider Jemena has sufficiently justified its need for two-way pricing given:

- Jemena expects an increase in solar uptake over the next decade, which could further exacerbate minimum demand and network stability issues in the middle of the day due to excess solar exports, and therefore drive increased network costs[105]
- the proposed two-way tariff is opt-in (bill impacts are avoidable) and an iterative step to familiarising Jemena's customers with export tariff components.[106]

Proposed two-way tariff charge/reward levels

Jemena's proposed two-way tariff structures (export charge/reward windows) align LRMC recovery with network wide peak export and import demand times when the costs to support distribution services are highest. The proposed structures therefore contribute to recovering revenue consistent with NER cl. 6.18.5(f). Jemena's approach to setting export charges based on export LRMC is also consistent with the pricing principles that tariffs must reflect efficient costs (NER cl. 6.18.5(g)).

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102 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 Jemena given the workshops in question were conducted jointly with Jemena, CPU and AusNet.

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

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

105 Jemena Electricity Networks, *JEN Att 9.02 Tariff Structure Statement 2026-31 – Explanatory Statement,* January 2025, pp. 12 – 13; Jemena provided analysis that during minimum demand events, residential customers with solar reached negative net consumption levels before 9 am and did not return to positive consumption until 4 pm. These customers then made an out-sized contribution to peak demand during the evening peak period and exacerbated the peak demand issue during that time.

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

Jemena's export rewards, as well as those of 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. Jemena and CPU 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 Jemena's proposed basic export level at this stage as we consider insufficient information was provided in Jemena's tariff structure statement for us to be able to assess it against NER cl. 11.141.13(b). We require this information be provided in the revised proposal. We encourage Jemena to consider section 6.2 of our *Export Tariff Guidelines* regarding the information that should be included when proposing a basic export level.

We assess two-way tariffs largely the same way as we assess consumption-based tariffs (as set out in section 13.4 of this draft decision, in terms of how we assess tariffs in general). In addition, our *Export Tariff Guidelines* provide (non-binding) information and guidance about the process for DNSP development and AER approval of two-way (export) tariffs.[107] 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. This is so customers who export could benefit from the network capacity they are already paying for through consumption charges.[108] This reflects the base level of export capacity that all networks currently provide, as network assets constructed to supply load have an inherent capacity to support some reverse power flow without any additional investment.

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

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

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

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107 NER, cl. 6.8.1B.

108 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.

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

The Victorian distributors jointly adopted the lowest possible basic export level.[109] Jemena's rationale was that the basic export level should be equal to zero (or as close to zero as the NER permits), to signal the costs associated with excess exports during critical minimum demand events.[110] Jemena considered that this rationale was consistent with Ausgrid and Evoenergy's approaches to justifying their basic export levels.[111] However, we do not consider it apparent how these precedents are applicable to Jemena's proposed basic export level. For example, Ausgrid only provides a *nominal* basic export level of 1 kW per hour for *utility scale storage* customers, who only incur export charges when network hosting capacity is exhausted (during critical peak minimum demand events).[112] In contrast, Jemena proposed a *nominal* basic export level for opt-in *residential* customers, who are charged for exports regardless of a minimum demand event being triggered or not (i.e., year-round, where hosting capacity may not be exhausted).

Jemena stated that in principle the basic export level should reflect its network hosting capacity. However, it did not provide intrinsic hosting capacity analysis in its tariff structure statement, or broader regulatory proposal, and it did not set out how its network hosting capacity had informed its 1kW/day basic export level. We expect to see this as a part of Jemena's revised tariff structure statement.

Observations on network bill impacts

We encourage Jemena to consider including in its revised tariff structure statement further bill impact analysis which demonstrates the impact to customers from whom revenue is recovered to fund export rewards. Part of the AEMC's considerations for two-way tariffs were that customers deriving most benefit from exports would pay the most for export services.[113]

Observations on Jemena's export tariffs making progress on recovering costs equitably

Although they remain opt-in, the Victorian distributors' two-way tariffs make some progress on a more efficient and equitable integration of CER into the electricity grid and comply with the pricing principles. For example, the proposed export charge increases the recovery of the costs of hosting solar from those customers who are contributing to those costs. Jemena's assignment policy has been driven by the Victorian Government.[114]

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

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

110 Jemena Electricity Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, pp. 23 - 24.

111 Jemena Electricity Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, p. 24.

112 AER, *Draft Decision – Ausgrid Electricity Tariff Structure Statement 2024-29*, September 2023, pp. 37 – 38.

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

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

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.[115] 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."[116]

Due to the limited cost recovery expected from the two-way tariff export charges, Jemena and the other Victorian distributors have (effectively) proposed to recover most of the costs of providing export services in the 2026–31 period from all customers. The Victorian distributors consider that providing a solar soak period with low consumption charges (accessible in the default residential time-of-use tariff) reduces the cross subsidy between customers with and without solar.[117]

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 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 Jemena'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 Jemena's proposed tariff structures and assignment policies for its medium customers (consuming >40 MWh and <400 MWh per annum and with demand <120 kVA per annum), large LV customers (demand >120 kVA per annum), HV customers and sub-transmission customers. This is because the proposed tariff structures and assignment policies are consistent with NER cl. 6.18.1A(a)(3) and (4) and NER cl. 6.18.1A(a)(2).

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115 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.

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

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

However, we encourage Jemena to more clearly distinguish between tariffs that will be withdrawn in the 2026–31 period and tariffs that will remain closed to new customers.

Our decision on the proposed site-specific tariffs and the large LV battery are discussed separately in sections 13.5.6 and 13.5.7.

13.5.5.1 Proposal

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

- transitionary versions of the large LV, HV and sub-transmission tariffs
- embedded network versions of the large LV and HV tariffs.[118]

Proposed tariff structures

Jemena proposed no changes to its tariff structures for medium and large business customers.

The general charging periods for Jemena's proposed tariffs are summarised in Table 13.3.[119]

Table 13.3 Summary of tariff structures for medium and large business customers

Tariff	Assignment	Charging windows
Medium time-of-use demand (default)	Default	Peak energy c/kWh: 7am – 11pm weekdays Off-peak energy c/kWh: all other times Demand $/kW: Maximum demand over last 12 months
Medium time-of-use demand opt-out	Optional (only for medium business customers consuming 40 MWh – 160 MWh per annum)	Peak energy c/kWh: 7am – 11pm weekdays Off-peak energy c/kWh: all other times Demand $/kW: Maximum demand set to $zero
Medium time-of-use extended demand[120]	Closed to new customers	Peak energy c/kWh: 7am – 11pm weekdays Off-peak energy c/kWh: all other times Demand $/kW: Maximum demand over the last 12 months, subject to minimum chargeable demand of 60 kW per annum
Large LV, HV and sub-transmission	Default[122]	Peak energy c/kWh: 8am – 8pm weekdays Off-peak energy c/kWh: all other times

118 Jemena Electricity Networks, *JEN Att 9.01 Tariff Structure Statement 2026-31,* January 2025, pp. 15-19.

119 Jemena Electricy Networks, *JEN Att-9.01 Tariff Structure Statement 2026-31*, January 2025, pp. 14-19.

120 As explained in section 13.5.3.1 it is not clear that this tariff A270 is available to medium or small business customers, and we seek clarity on this.

122 The LV multiple supply (for customers taking supply from multiple NMIs) and HV reserve feeder (for customers with a reserve feeder contract) versions of these tariff will remain closed to new customers.

Tariff	Assignment	Charging windows
summer incentive demand[121]		Demand $/kVA: maximum demand over last 12 months during 8am – 8pm weekdays (demand charge dependent on the customer's minimum chargeable demand) Summer Demand Incentive Charge (SDIC) c/kVA/day: Monthly maximum demand from December – March between 4pm – 7pm weekdays

Source: Jemena Electricity Networks, *JEN Att 9.01 Tariff Structure Statement 2026–31* , January 2025, pp. 15-19.

Proposed customer assignment

Jemena proposed no changes to its medium business customer tariff assignment.

For large customers, Jemena proposed to withdraw its transitional tariffs because all customers will have transitioned to its SDIC tariff by the start of 2026–31 period. Accordingly, it has not provided any bill impact analysis for these customers because Jemena has not proposed any changes to the tariff or the price relativities between the charges. [123]

Jemena also proposed to withdraw the embedded network versions of its large customer tariffs. It explained that these tariffs do not differ in price to their equivalent large business tariffs and the usage profile of its embedded network customers does not materially differ from non-embedded network customers.[124]

Stakeholder feedback

Jemena's ERG suggested several areas where Jemena's large business tariffs could be improved for better understanding and efficiency.[125] This includes by simplifying and providing clearer guidance on the SDIC, improving alignment between consumption and charges, and considering inclusion of winter incentive chargers. It also proposed alternative large business customer structures, including capacity-based tariffs, real-time pricing for customers with sophisticated energy systems, solar-soak charging periods for large customers, further engagement and fixed tariff options.

13.5.5.2 AER considerations

We consider Jemena's proposed suite of tariffs for its medium and large business customers contain cost reflective charging parameters. The proposed charging periods aligned with Jemena's charging parameters and reflected times of peak and off-peak usage for its

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121 Large LV and HV customers are assigned to one of 4 tariffs and one of 2 tariffs respectively depending on annual consumption. Sub-transmission customers are assigned to one of 4 tariffs, depending on whether the customer has connections from more than one sub-transmission loop, the sub-transmission loop that it is connected to or if it is an embedded generator. All of these tariffs have the same tariff structure.

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

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

125 Jemena Energy Reference Group, *Submission on Jemena's Regulatory Proposal 2026-31*, May 2025, p. 12.

medium and large business customers. We consider this signals the efficient costs of providing import services to these customers (consistent with the NPO and NER pricing principles[126]) and can be accepted.

The SDIC charge included in Jemena's suite of large business tariffs is highly cost reflective as is designed to signal to customers when Jemena's network is under most constraint on high peak demand days (during the evening peak 4 pm – 7pm during December to March). Unlike a standard demand charge, which includes a minimum chargeable demand (i.e., customers incur a charge even if they do not use energy), under a SDIC if a customer cuts demand to zero it incurs a zero charge. This provides a strong incentive to customers to respond to price signals and reduce demand during times of peak network constraint. We consider this type of charging parameter will encourage customers to reduce their consumption during periods when the network is under most constraint and it costs more to serve customers. By encouraging a reduction in demand at times when the network is under most constraint Jemena's large business tariffs promote efficient use of electricity services and supports achievement of the NEO.[127]

We support Jemena's proposed closure of its transitional tariffs because all its large LV, HV and sub-transmission customers will have transitioned to the SDIC tariffs during the 2021–26 period.

We note that Jemena did not propose any additional changes to its large business tariffs because it did not want to add additional complexities to its suite of tariffs so soon after implementation of the SDIC tariffs.[128] However, we acknowledge the concerns of Jemena's ERG that some large customers still do not understand the application of the SDIC and encourage Jemena to undertake further engagement with its large customers to inform its revised tariff structure statements. We also encourage Jemena to engage with and respond to the ERG's suggested changes to its large customer tariffs. We note that Jemena is considering whether to include a winter demand incentive charge in the next regulatory period and has already committed to engaging with the AER and stakeholders on this.[129]

We understand Jemena did not propose a solar soak charging period for its large customer tariffs for the same reasons it did not propose a solar soak period for its small and medium business customer tariffs. This is because a significant proportion zone substations supplying these customers peak during the day, and solar soak periods would send price signals that do not reflect Jemena's network constraints (see section 13.5.3.2). We agree with this view.

13.5.6 Site-specific tariffs

Our draft decision is to approve Jemena's site-specific tariffs with the requirement that it include further information to meet the requirements in NER cl. 6.18.1A(a)(2) and NER cl. 6.18.1A(a)(5). That is, to include in its revised proposal both the policies and procedures

126 NER cl. 6.18.5(f)

127 NEL, s 7.

128 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, p. 36.

129 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, p. 37.

Jemena will apply when assigning and or re-assigning customers to/from site-specific tariffs (including any applicable restrictions and options to opt-out/in) and a description of the approach Jemena will take in setting each site-specific tariff.

Jemena's proposed site-specific tariffs respond to our 2021-26 Victorian final decision, in which we encouraged their consideration for the 2026–31 period.

Proposal

Jemena proposed to offer site specific tariffs to customers connecting to its high voltage and sub-transmission networks in locations where Jemena considers it beneficial to both connecting and existing customers.[130] The charging parameters within the new site-specific tariffs are the same as those for its other large business tariffs. However, Jemena will set the price levels depending on the individual profile, or expected profile, of the customer, taking customer capital contributions into account.

Jemena proposed that capital contributions and individual large business tariff components will be levers that it will use to adjust the customer's site-specific tariff. In determining a site-specific tariff, Jemena will prioritise revenue certainty at each point in the assessment to avoid disadvantaging other customers through under-recovery. For example, if an eligible site-specific customer chooses to make additional capital contributions to reduce ongoing costs, Jemena may choose to reduce the customer's annual fixed charge. Jemena, considered, however, that it would be unlikely to reduce the customer's SDIC, as doing so would risk reducing cost-reflectivity for the customer if they have a higher-than-expected demand in the peak summer evening window.

Jemena further proposed to re-assess each site-specific customer every year and that it may adjust the site-specific pricing or move a customer to the relevant standard tariff for its usage profile if the cost recovery under the site-specific tariff is lower than expected, with a recalculation of capital contributions if necessary.

Stakeholder feedback

We received no submissions on Jemena's proposed site-specific tariffs.

AER considerations

Jemena's proposed site-specific tariffs would provide a more direct signal to customers on where to connect and the cost or benefit associated with connecting in different locations, compared to a standard tariff which averages costs across the network. We consider this promotes more efficient use of electricity services, consistent with the NEO and pricing principles.[131] We also consider that by taking capital contributions into account (and allowing customers to make additional contributions and taking these into account too), Jemena's proposed site-specific tariffs provide an opportunity for customers to better manage ongoing payments through their tariff and supports the customer impact pricing principle.[132] We

130 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, p. 36

131 NEL, s 16(1)(a), NER cl. 6.18.5.

132 NER cl. 6.18.5(h).

encourage Jemena to consider and/or clarify whether customers assigned to a site-specific tariff can opt-out to a standard tariff.

We sought further information on how Jemena would decide which customers can be offered a site-specific tariff and how Jemena would set the price levels for each customer's specific tariff. Jemena responded that it will provide further information in its revised proposal.[133] To help potential large customers, retailers and other interested stakeholders to better understand eligibility for the proposed site-specific tariffs we require Jemena to include this additional information in its revised proposal. This should include clarification of whether customers on a site-specific tariff can opt-out to a standard tariff (per NER cl. 6.18.1A(a)(2)).

13.5.7 Grid scale storage tariffs

Our draft decision is to approve Jemena's proposed battery tariff *structures*. However, consistent with our decision on proposed two-way tariffs in section 13.5.4, we require Jemena to provide further information on the proposed 1 kWh / day basic export level for this tariff, in accordance with NER cl. 11.141.13(b)(1)(i). We also require Jemena to clearly set out the proposed charging components, charging periods and indicative charges (per NER cl. 6.18.1A(4) and (5)).

Proposal

Jemena proposed to turn its trial community battery tariff, offered since 1 July 2023, into a large business battery tariff for the 2026–31 regulatory period. The tariff will be offered on an opt-in only basis, and at Jemena's discretion, to approved large business battery customers with a supply capacity of up to 500 MVA as set out in Table 13.4.[134]

Table 13.4 Large battery tariff structure

Tariff	Components	Charging periods
Large business battery tariff	Peak (c/kWh)	4pm – 9pm every day
	Solar soak (c/kWh)	11am – 4pm every day
	Export reward (c/kWh)	4pm – 9pm every day
	Export charge	11am – 4pm every day
	SDIC (c/kWh)	Levied if a battery is charged during the evening peak (4pm – 7pm) during summer (December to March)

Source: Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, pp. 35-36.

Stakeholder feedback

We received 2 submissions relevant to Jemena's trial storage tariffs. The Victorian Government stated that, to ensure confidence of investors, all distributors should have

133 Jemena Electricity Networks, *Information Request Jemena #033 – TSS clarifications,* June 2025.

134 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, pp. 35-36.

business as usual neighbourhood battery tariffs.[135] 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.[136]

AER considerations

Batteries are becoming increasingly important as the broader energy system transitions to net zero, as well as providing opportunities to increase network utilisation and reduce network augmentation costs. The Victorian Government has identified the importance of storage to achieving its legislated renewable and net zero targets, setting a Victorian energy storage target of 2.6 GW by 2030.[137]

We consider Jemena's proposed battery tariff contributes to achievement of the emissions reduction element of the NEO, by supporting the achievement of jurisdictional emissions reduction targets (i.e. the Victorian Government's net zero 2045 target). Under Jemena's proposed tariff, customers are rewarded for consuming energy during the solar soak period in the middle of the day (11am – 4pm) and for exporting energy back to the network during the peak period (4pm – 9pm). The peak period export reward reflects that the utility of batteries in network support will be during the evening peak period when the distribution network has greatest demand. The SDIC charging parameter is designed to signal to customers the costs of contributing to the evening peak demand period during highly congested times 4pm – 7pm weekdays in summer months. It works with the peak period import charging parameter to further disincentivise battery operators from charging during peak demand periods.

By incentivising consumption when output from renewable generation is high and disincentivising consumption during the evening peak, when generation is still dominated by fossil fuels, the proposed large battery tariff will help contribute to achievement of the emissions reduction element of the NEO.

We sought further information from Jemena to help us address AGL's concerns regarding the transparency of connection processes. Jemena responded that for Jemena-owned batteries, it will conduct analysis to ensure that batteries are only built in locations that demonstrate a network benefit, primarily through deferring augmentation expenditure (augex) and addressing emerging minimum demand issues.[138] For third-party battery owners, Jemena stated that while it has not received any connection requests to date, the same assessment approach will be followed to support their decision on battery location. Jemena further clarified that all new connections to Jemena's electricity distribution system—be they an import and/or export supply—are subject to its connection policy or NER Chapter 5 connection processes.

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

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

137 Victorian energy storage targets

138 Jemena Electricity Networks, *Information Request Jemena #040 – TSS clarifications,* August 2025.

We encourage Jemena to provide further explanation in its revised tariff structure statement on its connection processes and fees (like that provided in response to our information requests). This should include how Jemena will communicate the outcome of its assessment of battery locations.

Regarding its proposed 1 kWh / day basic export level, Jemena did not provide enough information to allow us to have regard to the basic export level being set with regard to Jemena's intrinsic hosting capacity, as we are required by NER cl. 11.141.14(b)(1)(i). We require Jemena to provide in its revised proposal further information and analysis that explains how it set its basic export level for its battery tariff, having regard to intrinsic hosting capacity.

We note that the tariff structure explanatory statement identifies an export charge period during the middle of the day (11am – 4pm).[139] However, Jemena have also stated that the export charge is currently set to zero.[140] To enable a better understanding of the proposed battery tariff and the charges (per NER cl 6.18.5(i)), we require Jemena to clearly set out in its revised proposal both the structure and charging periods of its proposed tariff as well as indicative prices. This includes explaining whether any charges would be set to zero and may change over the regulatory period and if so, under what circumstances.

13.5.8 Long run marginal cost methodology

Our draft decision is to not approve the proposed LRMCs on which Jemena based its proposed tariffs in accordance with NER cl. 6.18.5(f). We require Jemena to calculate LRMC based on at least a 10-year time horizon for its revised tariff structure statement. We also encourage Jemena to consider refinements/alternatives to the AIC method and to explain why it considers its proposed approach, compared to costs and benefits of alternative approaches, adequately captures the LRMCs of its network.

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

13.5.8.1 Explanation of LRMC

The NER pricing principles require that network tariffs be based on LRMC.[141] 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).

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139 Jemena Electricy Networks, *JEN Att-9.02 Tariff Structure Statement 2026-31 – Explanatory Statement*, January 2025, p.36.

140 Jemena Electricity Networks, *Information Request Jemena #040 – TSS clarifications,* August 2025.

141 NER, 6.18.5(f).

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

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

- the costs and benefits associated with calculating, implementing and applying that method as proposed
- the additional costs likely to be associated with meeting demand from retail customers that are assigned to that tariff at times of greatest utilisation of the relevant service; and
- the location of retail customers that are assigned to that tariff and the extent to which costs vary between different locations in the distribution network.[143]

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 two-way 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

Jemena (along with AusNet and CPU) used an AIC approach to calculate both its import and export LRMCs. Jemena engaged Oakley Greenwood to calculate LRMCs for both imports from and exports to the network. Jemena's explanation for using an AIC approach is that it has historically used AIC approach to estimate LRMC and the AIC approach has been widely

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

143 NER, 6.18.5(f).

used by other DNSPs in the NEM as a reasonable estimate for tariffs setting purposes and is consistent with the approach used during the current regulatory proposal.[144]

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 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 Jemena'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'.[145]

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 Jemena to use a forecast period of at least 10 years in its LRMC method for its revised tariff structure statement.

Continued improvement of methods for estimating LRMC

As explained in our LRMC guidance note, our expectation is that distributors continue to refine and improve their methods for calculating LRMC.[146] 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 Jemena to improve its AIC methodology or consider other methodologies which may be better suited to today's environment. The perturbation method for example involves modelling small, hypothetical

144 Jemena Electricy Networks, *JEN Att-9.01 Tariff Structure Statement 2026-31*, January 2025, p. 8.

145 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.

146 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.[147] 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.[148] In our 2021–26 tariff structure statement decision we considered CPU's approaches to estimating LRMC to be good examples of continual improvement.[149] 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 method.

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

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

In this third round of tariff structure statements Jemena (and the other Victorian distributors) did not refine their methods for 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 Jemena to improve its LRMC methodology for both its import and export services and to provide more explanation regarding forecast expenditure and how the proposed expenditure is related to provision of its services and forecast for its services. This

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

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

149 AER, *Final Decision AusNet Services, 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 Jemena's allocation of residual costs. We consider Jemena allocated residual costs in a manner that replicates (and least distorts) price signals based on LRMC and complies with distribution pricing principles 6.18.5(f) and (g). Jemena also adequately explained its approach to allocating residual costs in its tariff structure statement.

Proposal

In allocating residual costs Jemena explained how it first allocates LRMC to tariffs and then recovers residual costs. In summary in designing tariffs and allocating LRMC and residual costs Jemena:

- calculates LRMC and translates base LRMC estimates into tariff component LRMC estimates
- uses the tariff component LRMC estimates as the basis for the peak time-of-use or demand component for each relevant tariff as applicable by:
  - considering the variation between the tariff components' current price level and the new LRMC estimate, and
  - seeking to move these components toward the new LRMC estimates in a manner that mitigates customer impacts, seeks to smooth the long-term volatility of LRMC estimates and ensures a peak-to-off-peak price multiple adequate to incentivise desired customer behaviour
- allocates residual costs in a manner that:
  - best replicates (and least distorts) the price signals the customer receives allocating based on LRMC
  - reduces volatility with the previous years' price levels to mitigate customer bill impacts.
- sets price levels for tariffs without a cost-reflective component (i.e., without a demand component or a 4 pm – 9 pm peak time-of-use component) in line with cost-reflective counterparts. For example, set annual prices so that the average customer on a single-rate tariff is not better off than the average customer on a cost-reflective tariff, as this would undermine the incentives of time-of-use tariffs
- ensures that revenue from each tariff class lies between stand-alone and avoidable costs.[150]

Stakeholder feedback

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

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150 Jemena Electricy Networks, *JEN Att-9.01 Tariff Structure Statement 2026-31*, January 2025, pp. 8-9.

AER considerations

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

Jemena's proposed approach is to base its peak and demand charges on LRMC, and recover residual costs in a manner that replicates (and least distorts) the price signals the customer receives (allocated based on LRMC). We consider this reduces volatility with the previous years' price levels, mitigates customer bill impacts, and is consistent with distribution pricing principles 6.18.5(f) and (g).

13.6 Assignment to tariff classes

Our draft decision is to approve Jemena's policies and procedures governing assignment or reassignment of retail customers to tariff classes for direct control services.[151] Table 13.5 summarises how Jemena proposes to assign customers to their respective tariff classes.

Jemena has proposed a cosmetic change to its "Small business" tariff class, proposing to rename it to the "Small and medium business" tariff class.

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

Table 13.5 Tariff classes for Jemena

Tariff classes	2026-31 Customer type and assignment
Residential	All residential customers
Small and medium business[152]	Non-residential customers connect to LV networks with annual consumption <400 MWh and maximum demand <120 KVA
Large business – LV	Non-residential customers connect to LV networks with annual consumption >400 MWh and maximum demand more than or equal to 120 KVA
Large business – HV	All customers connected to the HV network
Large business – Sub-transmission	All customers with a connected supply voltage >22,000 V

Source: Jemena Electricy Networks, *JEN Att-9.01 Tariff Structure Statement 2026-31*, January 2025, p. 4

13.7 Statement structure of completeness

Jemena must include the following within its tariff structure statement:

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- a description of the strategy or strategies the distributor has adopted, taking into account the pricing principles in clause 6.18.5(h), for the introduction of export tariffs including where relevant the period of transition (export tariff transition strategy)
- 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.[153]

Jemena's tariff structure statement must be accompanied by an indicative pricing schedule.[154]

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

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

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152 Renamed from "Small business tariff" in 2021-26 proposal.

153 NER, cl. 6.18.1A(a).

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

- the first document should only include the aspects of the tariff structure statement that will bind Jemena over the 2026–31 regulatory period
- the second document should explain Jemena's reasons for what it has proposed.[155]

[155] 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.[156] 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.[157] 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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156 AEMC, *Final Report Power of choice review – giving consumers options in the way they use electricity (Power of choice review)*, 30 November 2012.

157 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 long-run marginal cost rather than short-run marginal cost.[158] 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.[159] 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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158 AEMC, *Distribution network pricing arrangements rule change*, November 2014.

159 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.[160] 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.

[160] 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
CPI	consumer price index
CPU	CitiPower, Powercor and United Energy
DER	distributed energy resources
distributor	distribution network business
DUOS	distribution use of system
ERG	(Jemena's) Energy Reference Group
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
SDIC	Summer demand incentive charge
ST	sub-transmission
TUOS	transmission use of system
VDO	Victorian default offer
V	Volts