FINAL DECISION

AusNet Services, CitiPower, Jemena, Powercor, and United Energy Distribution Determination 2021 to 2026

Attachment 19
Tariff structure statement

April 2021

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to AusNet Services, CitiPower, Jemena, Powercor, and United Energy for the 2021–26 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

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Attachment 10 – Service target performance incentive scheme

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19 Tariff structure statement

This attachment sets out our final decision on the Victorian electricity distributors' proposed tariff structure statements to apply for the 2021–26 regulatory control period.

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period. It describes:

- a distributor's tariff classes and structures
- the distributor's policies and procedures for assigning customers to tariffs
- the charging parameters for each tariff
- a description of the approach the distributor will take to setting tariff levels in annual pricing proposals.

It is accompanied by an indicative pricing schedule.[1]

A tariff structure statement provides consumers and retailers with certainty and transparency in relation to what network tariff structures will be charged to retailers for different types of consumers over the five year period to which it applies. It also explains how a distributor's tariff strategy aligns with other initiatives it is undertaking, such as the management of distributed energy resources (DER) and demand management.

Our final decision focuses upon issues unresolved after our draft decision and each Victorian electricity distributor's revised proposed tariff structure statement. We approved most elements of the initial proposals. Revised proposals dealt with most issues left outstanding after our draft decision. A small number of issues remained to be addressed with our final decision. For details of our consideration of previously settled issues, please see Attachment 19 of our draft decision for each Victorian distributor.[2] For example, most small customer tariff issues have been settled prior to this final decision.

With their revised proposed tariff structure statements, the Victorian distributors made a number of improvements to their large customer tariffs. Our final decision is to approve them. We accept that there was insufficient time to establish additional large customer tariffs between our draft decision and revised proposals being submitted to us.

Stand-alone energy storage assets and electric vehicle charging stations can, if appropriately incentivised, make significant contributions to more efficient operation of Victoria's distribution networks. To realise those benefits they must be exposed to network tariffs which signal the costs of network use at times of current or future

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1 NER, cl. 6.18.1A(e).

2 As the Victorian distributors coordinated on a number of key issues we produced one draft decision attachment to cover the proposed tariff structure statements from the five distributors together. This was published as Attachment 19 under the draft decision for each distributor.

congestion on the relevant parts of the network. They should also make contributions to network cost recovery commensurate with their network use.

Our final decision is that new and emerging technologies with potentially significant new loads should face appropriate network price signals to guide their use of network assets. Without appropriate network price signals these potentially beneficial technologies could exacerbate network congestion and worsen bill outcomes for all Victorian electricity consumers.

Further improvements to the efficiency of Victoria's distribution network price signals may be made in the future. We note the Victorian networks intend to trial a number of innovative new tariffs, including for large customers. This matches a more general move across the National Electricity Market (NEM) to trial new tariffs and new technologies. We support these initiatives to inform the ongoing reform program.

Future network tariffs should further enhance opportunities for consumers to optimise their own consumption and asset use, while getting the most out of shared network assets financed by all consumers. They should also be technologically neutral, simply signalling the costs (and benefits) arising from serving the consumers' use of the network.

19.1 Final decision

Our final decision is to approve the Victorian electricity distributors' tariff structure statements with amendments that:

- ensure all consumers contribute to the recovery of the cost of operating and maintaining the electricity distribution network they use, including stand-alone (grid scale) storage assets;
- provide greater detail on tariffs to be trialled in the first year of the regulatory control period under the approved tariff structure statements; and
- simplify tariff assignment policies to support Victorian Government policy and facilitate simpler engagement between distributors and retailers.

Our broad acceptance of the distributors' revised proposals is due to the revised Victorian tariff structure statements largely aligning with our draft decision.
For example, our draft decision for the residential and small business tariff classes established:

- default assignment to the time of use tariff with the ability to opt-out to the demand or flat rate network tariff structures;
- reassignment of customers on legacy time of use, flexible and demand tariffs to the new time of use or demand equivalent;
- discounted time of use and demand tariffs relative to the flat rate to incentivise take-up of these more cost reflective options;
- state wide peaks of 3pm to 9pm for residential customers and 9am to 9pm for small business customers;

- removal of access to the flat rate network tariff for electric vehicle owners, once such customers are identifiable; and
- continued ability for customers with consumption under 160 MWh a year but demand greater than 120 kVA to access a zero demand tariff structure.

However, following engagement with the distributors we have revised our approach to accept:

- distributors may provide tariff choice to large users through tariff trials and transitional arrangements during the 2021–26 regulatory control period.

19.2 Victorian distributors' revised proposals

The Victorian distributors' revised tariff structure statements closely resemble the tariff structure statements initially proposed in January 2020. In response to our draft decision, the distributors made the following changes:

- AusNet Services aligned with other distributors in allowing solar customers to opt-out to a flat rate tariff but incentivising the choice of a cost reflective tariff through introducing a discount of 1 per cent per year relative to the flat rate.
- CitiPower, Powercor and United Energy increased the peak to off-peak ratio of the residential time of use tariffs to maintain the established ratios.
- All five distributors proposed to remove legacy residential cost reflective tariffs to focus on the coordinated choice of the new time of use, demand or flat rate tariffs for the new regulatory control period.
- All five distributors supported the Victorian Government's position that electric vehicle owners should face cost reflective tariffs to support the efficient integration of this emerging technology.[3]
- CitiPower, Jemena, Powercor, and United Energy reviewed and refined their large user peak charging windows to more closely target network conditions.[4] This included CitiPower, Jemena and Powercor adopting United Energy's incentive peak demand component into their large user tariff structure.
- CitiPower, Powercor and United Energy provided further flexibility by allowing large business customers who can demonstrate their capacity to match "the nature and extent of their usage"[5] and "nature of their connection to the network" to the small business tariff class to be reassigned to this tariff class.
- All five distributors provided greater clarity on how their tariff strategy aligned with DER integration and demand management programs over the regulatory control period, including a clear commitment to trial alternative tariffs (see Appendix B).

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[3] Victorian Department of the Environment, Land, Water and Planning, *Victorian Government submission on tariff structure statements 2021–26*, 29 May 2020, p 1.

[4] As AusNet Services uses a critical peak demand tariff structure targeted at five peak demand events rather than the long peak windows the other distributors initially proposed for medium and large businesses.

[5] NER cl 6.18.4 outlines the characteristics that should inform the assignment of tariff classes and requires customers with similar connection and usage profiles to be treated on an equal basis.

With respect to energy storage:

- AusNet Services and Jemena adopted CitiPower, Powercor and United Energy's proposal to offer standalone batteries in their network zero priced tariffs, noting the right to an avoided transmission use of system (TUOS) rebate would need to be waived should the battery not pay tariffs.

With respect to large business customer tariffs and contrary to our draft decision, the distributors proposed:

- Not to offer large user tariff choice, but they have made a number of improvements to their proposed large customer tariffs and undertaken to support tariff trials.
- CitiPower, Jemena and Powercor proposed transitional arrangements to support implementation of their amended large user tariff in their revised proposals.
- AusNet Services undertook to consider extending its critical peak price large business customer tariff to its medium business customers in the 2026–31 regulatory control period.

19.3 Assessment approach

We assessed revised proposals against the two sets of requirements for tariff structure statements set out in the National Electricity Rules (NER).

First, the NER sets out a number of elements that an approved tariff structure statement must contain.[6] These include the structure of proposed tariffs, and the policies and procedures the distributor will use to assign customers to those tariffs.

Second, a tariff structure statement must comply with the distribution pricing principles.[7] Broadly, the pricing principles require tariffs to reflect a distributor's efficient costs. An approved tariff structure statement must have regard to the impact on customers in the transition to cost reflective tariffs.

Please refer to our draft decision for more details.[8]

19.4 Reasons for final decision

In this section, we outline our reasons for:

- requiring standalone batteries to:
    - face network price signals to guide their operation
    - contribute to the cost of operating and maintaining the electricity distribution networks they use

6 NER, cl. 6.18.1A(a).

7 NER, cl. 6.18.1A(b).

8 AER, *Draft Decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy Distribution Determination 2021 to 2026 Attachment 19*, September 2020, p 19-8 to 19-11.

- approving CitiPower, Jemena and Powercor's more targeted large customer tariff peak charging windows and their adoption of United Energy's incentive demand tariff structure with a transitional arrangement
- requiring the distributors to provide further information on their intended tariff trials for the first year of the regulatory control period, in addition to plans for later years
- amending the distributors' assignment policies to clearly remove access to the flat rate network tariff for electric vehicle owners and allow retailers to request tariff reassignment to optimise their retail offers.

As previously noted, with our support, the Victorian electricity distributors retained most of their initial proposed tariff structure statements for their revised proposals. We have not provided additional analysis of:

- issues we approved and which were not changed between initial and revised proposals (e.g. the aligned residential and small business charging windows)
- elements of our draft decision which the Victorian electricity distributors adopted with their revised proposals (e.g. reassigning customers on legacy cost reflective tariffs and maintaining historical peak to off-peak ratios for small users).

Stakeholders seeking the reasons for our above decisions should refer to Attachment 19 of our draft decision.[9]

19.4.1 Tariff choice for medium and large business tariffs

United Energy's medium business customers

In its revised proposal, United Energy proposed that its medium business customers be able to opt-out to a time-of-use tariff only. We consider this is appropriate. Our final decision is to approve this element of United Energy's revised proposed tariff structure statement.

United Energy's medium sized business customers are capable of understanding time of use tariffs.[10] They may also mitigate the impact of the change in tariffs through their usage decisions, including by investing in energy storage.[11]

In its initial tariff structure statement proposal, United Energy proposed that medium business customers be assigned to a demand tariff, with the ability to opt-out to either a time-of-use tariff or a single-rate tariff.

Our draft decision was that the single-rate tariff was inappropriate, given its inability to provide a price signal to customers as to their impact on the network. Single rate tariffs do not signal the likely cost to the distributor of meeting demand during times of

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9 AER, *Draft Decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy Distribution Determination 2021 to 2026 Attachment 19*, September 2020

10 NER, cl. 6.18.5(i).

11 NER, cl.6.18.5(h0(3).

greatest network utilisation.[12] Accordingly, in our draft decision we required United Energy to either incorporate cost-reflective elements (such as demand or critical peak pricing) within this tariff structure or exclude it as an opt-out alternative.

Tariff optionality for medium and large business customers

Our final decision is to approve the Victorian distributors' proposal to not offer tariff choice to large business customers and Jemena's medium business customers. We accept that, given limited time to develop and consult stakeholders on new tariff designs, the distributors were not able to introduce further choice between their initial and revised proposals.

In their initial tariff proposals, the Victorian distributors offered only one network tariff to their large business customers. This was in contrast to distributors in other jurisdictions which generally offer large business customers a choice of alternative cost reflective tariffs in addition to the default tariff.

In our draft decision we required the Victorian distributors to:

- offer their large business customers an alternative network tariff, in addition to their default tariffs, in the form of an individually calculated customer (ICC) tariff
- set out the parameters and processes they would use to develop the charging parameters and price levels of those tariffs.

We also required AusNet Services to provide its medium business customers with an opportunity for network tariff choice in addition its default critical peak demand tariff.

In their revised proposals, the Victorian distributors argued that there was insufficient time available to design and develop new site-specific tariffs. The Consumer Challenge Panel, sub-panel 17 (CCP17) supported this view, highlighting there was only a nine-week period between the release of the draft decision and development of revised proposed tariff structure statements.[13]

Jemena and the CCP17 both submitted that the provision of optionality, merely for the sake of choice, would result in customers simply selecting the cheapest tariff and not necessarily elicit a beneficial behavioural change.[14] The Energy Users Association of Australia (EUAA) doubted there was any benefit from introducing further optional cost reflective tariffs.[15]

In response to the CCP17 and EUAA, we note that when tariffs are cost reflective any reduction in a customer's network bill will derive from behaviour that reduces

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12 NER, cl. 6.18.5(f)(2).

13 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 78.

14 Jemena*, 2021–26 Electricity Distribution Price Review Revised Proposal, Attachment 12-02, Tariff Structure Statement – Explanatory Document*, 3 December 2020, p. 70; CCP17, *Advice to the AER on the Victorian Electricity Distributors' Revised (Final) Regulatory Proposals for the Regulatory Determination 2021–26*, 8 January 2021, p. 78.

15 Energy Users Association of Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 11.

operational and investment costs for the network. We consider there is merit in enabling consumers to choose the tariff structures that best suit them. This is relevant to large customers just as for small customers. We note too that tariff optionality may provide the flexibility that customers need to unlock the marginal behavioural change required to realise network benefits.

While no Victorian distributor proposed an ICC tariff for their large business customers in their revised tariff structure statement, several reviewed the structure and assignment of their default large business tariff. In particular:

- CitiPower, Powercor and Jemena proposed a tariff structure consistent with that of United Energy by incorporating an incentive demand charge into their existing tariffs. This facilitates a commensurate reduction in the levels of other tariff parameters.[16]
- CitiPower, Powercor and United Energy proposed to set locational windows for their incentive demand charges to better target local network constraints.
- CitiPower, Powercor, United Energy and Jemena proposed to revise their peak charging windows.[17] [18] [19]

Following consultation with key stakeholders, including the EUAA, AusNet Services proposed no changes to the existing pricing structure and assignment policies of its critical peak demand tariffs for medium and large business customers. However it did adjust its medium business tariff peak charging window, as discussed below.[20]

EnergyAustralia submitted that the revised large business customer tariffs incorporated improved operational signals and represented an improvement on current arrangements. It submitted that the incentive tariff component and the determination of demand over a twelve-hour period provide time-based signals for storage assets to efficiently utilise spare network capacity.[21]

However, EnergyAustralia also submitted that there was further opportunity for tariffs to optimise network use, particularly for storage assets.[22]

Similarly, AGL submitted that there remains scope to further improve tariff structures for large businesses to be more cost reflective. In particular, it did not consider the measurement of maximum demand charges over wide time periods to be sufficiently cost reflective for situations where a large customer can effectively schedule its

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16 These new incentive demand charges will be introduced on a transitional basis to enable customers to adjust to the new tariff structure.

17 CitiPower, Powercor Australia and United Energy, *Tariff Structure Statement – Explanatory Document 2021–26*, 3 December 2020, pp. 17-21.

18 Jemena, *2021–26 Electricity Distribution Price Review Revised Proposal, Attachment 12-02, Tariff Structure Statement – Explanatory Document*, 3 December 2020, p. 70; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, January 2021, p. 61.

19 Ibid.

20 AusNet Services, *Revised Tariff Structure Statement 2022–26, Explanatory Pape*r, 3 December 2020, p. 56.

21 EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021,, pp. 1-2.

22 Ibid.

maximum demand. Nonetheless, AGL submitted that dynamic locational pricing would be difficult to achieve under the existing framework.[23]

EnergyAustralia was concerned that the minimum demand charges proposed may disadvantage smaller users.[24]

The basis for our draft decision requirement for tariff optionality was to further the cost-reflectivity of large business tariffs, particularly though establishment of locational price signals. We considered ICC tariffs to be a suitable means of introducing both locational and, where necessary, more dynamic charging parameters.[25] Across other NEM regions, ICC tariffs are used to better signal to large customers the actual cost of their connection and network use.

However, we acknowledge the challenges associated with development of site-specific tariffs, and accept that it has been impractical for the Victorian distributors to incorporate ICCs within their revised proposals in the time available to them.

Jemena, United Energy, CitiPower and Powercor proposed revisions to their default large business tariffs. We consider these changes enhance the cost reflectivity of those tariffs and therefore partially meet our draft decision objectives.

While AusNet Services elected not to reform its medium and large business tariffs, we recognise the superior cost-reflective nature of its existing critical peak pricing tariffs and the dynamic signals they send about periods of network constraints.

In the absence of site-specific tariffs, we note that distributors intend to provide some flexibility and optionality for customers. For example, AusNet Services proposed to permit a review of the capacity value assigned to the capacity element of its critical peak demand tariff.[26]

Similarly, United Energy, CitiPower and Powercor proposed to enable customers to opt out of a large business demand tariff to a time of use tariff, subject to installing equipment to limit demand to 120 kVA.[27]

In addition, CitiPower, Powercor, United Energy and Jemena propose to retain the safety net, provided for under Victorian Government legislation,[28] enabling customers consuming less than 160 MWh per annum to access a tariff structure with a $0 demand component.[29] Those customers may choose a usage-based tariff regardless

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23 AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.

24 EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 5.

25 AusNet Service's critical peak price large customer tariff is an example of a dynamic tariff. It is not, however, locational in nature.

26 AusNet Services, *Revised Tariff Structure Statement 2022–26, Compliance Document*, 3 December 2020, p. 23.

27 CitiPower, *Tariff Structure Statement 2021–26*, December 2020, p. 14 ,Powercor, *Tariff Structure Statement 2021–26*, December 2020, p. 44, and United Energy, *Tariff Structure Statement 2021–26*, December 2020, p. 14.

28 Advanced Metering Infrastructure (AMI Tariffs) Amendment Order 2017 Order in Council, gazetted 12 September 2017.

29 CitiPower, *Tariff Structure Statement Explanatory Document 2021–26,* December 2020, p 21; Powercor, *Tariff Structure Statement Explanatory Document 2021–26*, December 2020, p 21; United Energy, *Tariff Structure*

of the size of their peak demand when their consumption remains below 160 MWh per annum.

Accordingly, we approve the tariffs as proposed. However, we consider that the Victorian distributors should continue to pursue further development of these tariffs, including the potential for ICC tariffs, in their 2026–31 tariff structure statements.

In this context, we note that tariff trials and demand management initiatives have been foreshadowed for the forthcoming regulatory period. These undertakings should inform the continued progress of tariff reform, particularly at the medium and large business customer level, in tariff structure statements for the 2026–31 regulatory period.

For example, all five Victorian distributors have committed to exploring alternative tariff arrangements for electrical vehicle charging stations. The evidence and learnings from these trials could be applied to other customers with similar connection and network usage, such as irrigators and medical imaging service providers.

We will work with the distribution businesses over the 2021–26 regulatory control period to support implementation of these trials.

CitiPower, Powercor and United Energy large customer minimum thresholds

Subsequent to submitting to us their revised proposed tariff structure statements, CitiPower, Powercor and United Energy noted to us that high voltage (HV) customer demand had fallen substantially, especially due to the COVID-19 pandemic, and considered these customers would be adversely impacted by the proposed thresholds for minimum chargeable demand. Accordingly, the three businesses proposed to lower the minimum chargeable demand for their:

- HV customers, from 1,000 kVA to 500 kVA
- sub-transmission customers, from 10,000 kVA to 5,000 kVA.[30]

We consider this is reasonable and have modified the CitiPower, Powercor and United Energy tariff structure statements to reflect the above changes.

Australian Energy Market Operator review of its Victorian transmission pricing methodology

Subsequent to submitting their revised proposed tariff structure statements to us, CitiPower, Powercor and United Energy separately proposed a further change. They proposed that the incentive demand charge for their sub-transmission customers be initially set to $0 in recognition of Australian Energy Market Operator's (AEMO's)

Statement Explanatory Document 2021–26, December 2020, p 21; Jemena, *Revised Regulatory Proposal, Attachment 12-01 Tariff Structure Statement*, December 2020, p 9.

[30] Email correspondence to the AER, 19 February 2021.

ongoing review of the transmission pricing methodology in Victoria.[31] Once this review is completed and the final transmission tariff structures known, the distribution businesses indicated that they would reconsider this charge.[32]

We support the sub-transmission pricing structure being modified should we approve the change in AEMO's pricing methodology for transmission tariffs. However, we consider it appropriate that the tariff structure statements be amended to provide network customers with greater certainty as to how the final transmission tariff structure will impact the incentive demand charge from 1 July 2022.

In particular, we consider there should be an explicit commitment to resume the transition towards the incentive demand structure identified in the revised proposal if AEMO's pricing methodology remains unchanged. Alternatively, should AEMO move from a tariff structure focused on a limited number of peaks to one considering peaks across 365 days, the incentive demand component should remain at $0.

We have modified the tariff structure statements to reflect the above.

19.4.2 Charging windows

Reconsideration of particular peak charging windows

Our final decision is to approve the more targeted peak charging windows proposed by the Victorian distributors for their large customer tariffs. We consider the revised charging windows better reflect when networks are, or are likely to become, constrained. They also provide large customers with greater opportunity to shift their load to avoid peak charging periods, so are more likely to elicit a beneficial behavioural response from those customers.

In our draft decision we highlighted concerns with some very broad peak charging windows proposed by the Victorian distributors. We considered there to be a potential for them to inaccurately reflect when the network is under greatest strain. They may also have been too wide to send effective price signals to customers about their use of the network.

Accordingly, we suggested that the distributors consider amending these peak charging windows to make them more targeted. Except for United Energy, the distributors responded to our draft decision by tightening their business tariff peak charging windows.

Table 19.1 compares the peak charging windows proposed by the Victorian distributors in their initial proposed tariff structure statements with those in their revised proposals.

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31 See https://aemo.com.au/consultations/current-and-closed-consultations/transmission-use-of-system-pricing-methodology-vic.

32 Email correspondence to the AER, 8 February 2021.

Table 19.1 Revised Peak charging windows

Distributor	Tariff/s	Draft proposed peak charging window	Revised proposed peak charging window
AusNet Services	Default medium business tariff	07:00 to 10:00 16:00 to 23:00	16:00 to 21:00
Jemena	All medium business, large business and sub-transmission tariffs	07:00 to 23:00	08:00 to 20:00
CitiPower, Powercor	Opt-in medium business tariff	07:00 to 23:00	10:00 to 18:00
United Energy	Opt-in medium business tariff	09:00 to 21:00	09:00 to 21:00

Source: AER analysis of data provided by distribution businesses.

Based on its analysis of recent network utilisation data, AusNet Services proposed that, for its medium business tariff:

- the morning peak be removed
- the evening peak be narrowed

with these windows to take effect from 1July 2023.[33]

The EUAA supported the single peak charging window and its delayed introduction.[34]

Jemena provided data to support a narrowing of the peak window for its large business tariffs, proposed in conjunction with the introduction of a summer demand incentive charge, discussed in section 19.1.1 above. This decision was taken following consultation with its Customer Council.[35]

CitiPower proposed to significantly narrow the peak charging window for its opt-in medium business tariff, but did not provide any supporting analysis.[36]

United Energy elected not to revise the peak charging window for its opt-in medium business tariff.

We approve the peak charging windows contained in the Victorian distribution businesses' revised tariff structure statement proposals.

Powercor's large customer charging windows

In our draft decision, we noted Powercor proposed the same peak and demand charging windows for its large business and sub-transmission tariffs as CitiPower.

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33 AusNet Services, *Revised Tariff Structure Statement 2022–26*, Explanatory Paper, 3 December 2020, pp. 56-63.

34 Energy Users Association of Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 11.

35 Jemena, *2021–26 Electricity Distribution Price Review Revised Proposal, Attachment 12-02, Tariff Structure Statement – Explanatory Document,* 3 December 2020, p. 64.

36 CitiPower, Powercor Australia and United Energy, *Tariff Structure Statement – Explanatory Document 2021–26*, 3 December 2020, p. 7.

We sought clarity from Powercor as to how its charging windows reflect the periods when its network is most heavily utilised.

In its revised tariff structure statement proposal Powercor proposed to adopt the same revised tariff structure as CitiPower and United Energy. It proposed that identical peak and demand charging windows would apply across all three distribution businesses. However, Powercor also proposed that windows for incentive demand charges be dependent on customer location, determined on the basis of an analysis of zone substation peak demand times across the network.

We accept the locational-based charging arrangements proposed will more effectively contribute to the recovery of network costs at times of peak demand. We approve Powercor's proposed approach.

19.4.3 Tariff treatment of grid scale storage

Our final decision is that stand-alone energy storage assets, such as batteries but potentially also other energy storage technologies, that provide services other than solely network support, must be assigned to tariffs according to the usual tariff class assignment criteria. It is appropriate that such assets contribute to network cost recovery and see network price signals to guide their operation.

Ownership of energy storage assets should not be the basis for differential tariff treatment. Capital investment and operational decisions for these assets should be based on a cost-reflective price signal, determined by the underlying use of network services, connection arrangements and the relevant approved tariff class structure. In other words, if the asset falls into a particular tariff class, it should be exposed to the same network tariffs as other customers in that tariff class, whether owned by a distributor, its affiliate or a third party.[37]

In their initial proposed tariff structure statements, all Victorian distributors proposed that any grid-scale battery they owned be exempt from network tariffs. However, their proposed tariff treatment differed for batteries owned by other parties:

- CitiPower, Powercor and United Energy proposed to exempt batteries they do not own from a network tariff under particular circumstances, including where:
    - there is only generation or no other load at the site
    - the battery is to be operated to the net benefit of the distributor's customers
- AusNet Services and Jemena proposed to continue to treat batteries in accordance with their standard tariffs to reflect the demand they place on the network, with no exemptions
- Jemena also noted it was considering a tariff specific to customers who provide network benefits, including battery owners.

[37] Clauses 6.18.4 (a) (2) and (3) of the NER require all load to be treated the same, regardless of the presence of microgeneration. We believe that this requirement extends to treating batteries in a manner consistent with their use of the network.

We did not make a draft decision in relation to this matter, given the lack of information provided by the distributors. We also took into account the ongoing Australian Energy Market Commission (AEMC) review of AEMO's Integrating Energy Storage Systems into the NEM rule change proposal (the AEMO rule change proposal).[38]

At the time of our draft decision, we considered the rule change process would provide clearer policy direction on tariffing of grid scale storage, even if the AEMC would not make its final determination until after the Victorian tariff structure statements were finalised. We believed that a change in policy was likely and that transitional arrangements would be appropriate to accommodate new rules.

In that context we identified four interim pricing options, seeking stakeholder comment on these and any alternative courses of action.

In response to our draft decision, all five Victorian distributors proposed to exempt grid-scale batteries from network tariffs if the asset is owned by either:

- the distributor and installed to manage the distribution network, or
- another party and operated to the 'net benefit' of network customers.

In the latter case above, the asset owner would forego avoided TUOS payments.[39]

On 3 December 2020, subsequent to the release of our draft decision, the AEMC extended the period of time for it to make a draft determination on the AEMO rule change proposal to 29 April 2021.[40]

Shortly afterwards, the AEMC published an options paper, seeking further stakeholder engagement on alternatives to AEMO's proposed solutions, which it considered may better align with the Energy Security Board's (ESB) post-2025 market design reforms, particularly the transition to two-sided markets.[41]

To the extent the AEMC's options paper and communication to date have not addressed:

- the lack of clarity in the NER as to the appropriate charging arrangements for energy storage systems, and
- the potential investment distortions arising from differential charging arrangements at the transmission and distribution level.

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38 AEMO, *Electricity Rule Change Proposal – Integrating Energy Storage Systems into the NEM*, August 2019, p.20. Amongst other issues raised, AEMO argued there was a need for the NER to clarify whether DUOS and TUoS charges should apply to energy storage systems (including grid-scale batteries). AEMO argued that the current ambiguity in the NER means they are interpreted and implemented differently for each energy storage system.

39 CitiPower, *Tariff Structure Statement 2001-2026*, December 2020, p. 14; Powercor, *Tariff Structure Statement 2001-2026*, December 2020, p. 14; United Energy, *Tariff Structure Statement 2001-2026*, December 2020, p. 14; AusNet Services, *Revised Tariff Structure Statement 2022–26 – Compliance Document*, December 2020, pp. 23-4; Jemena, *Revised Regulatory Proposal, Att. 12-01 Tariff Structure Statement*, December 2020, p. 18.

40 See https://www.aemc.gov.au/news-centre/media-releases/extra-time-have-your-say-integrating-storage.

41 AEMC, *Options Paper - National Electricity Amendment (integrating Energy Storage Systems into the NEM) Rule 2021*, 17 December 2020, available at https://www.aemc.gov.au/sites/default/files/2020-12/Integrating%20energy%20storage%20-%20Options%20paper.pdf.

It is unlikely that the AEMC's final determination on the AEMO rule change proposal will conclusively resolve these particular matters. Nor is it likely to provide a change in the policy positions which inform the operation of the NER.

Accordingly, in the absence of new rules or additional guidance at this time, our final decision on battery pricing will likely apply for the duration of the 2021−26 regulatory control period, rather than be an interim one as we previously considered.

In submissions on our draft decision, stakeholders emphasised the importance for the tariff treatment of batteries to be consistent for all asset owners. Firm Power submitted that allowing the distributors to exempt their own batteries while proposing a different tariff treatment on others was unfair, would stymie market development and likely to lead to a worse outcome for consumers.[42] EnergyAustralia submitted that such an arrangement would be incongruous with the objective of optimising the efficient use of storage assets.[43]

We agree that asset ownership should not be a criterion for the provision of exemptions from network tariffs. To do so would hinder investment in storage technology.

All Victorian distributors proposed that storage devices they own be exempt from network tariffs where the assets are used solely for network management purposes (that is, where storage devices are contributing to the provision of standard control services only). We agree that in this context, a grid-scale battery is simply another element of regulated infrastructure providing regulated services. The regulatory framework governing these assets would be the same as for the poles and wire infrastructure.

Any plan for a distributor-owned battery to provide non-regulated services, in the wholesale market for example, would be subject to an AER ring-fencing assessment with a view to ensuring these services cannot be provided at a competitive advantage. In this case, the ring-fenced portion of the battery providing non-network services would not be considered to be part of the distributor's regulated asset base and it would be subject to network charges consistent with other assets having a similar connection to, and use of, the network.

Where a battery is owned by another party, all distributors proposed a tariff exemption where that asset is provided to the 'net benefit' of network customers. However, the proposals were silent as to how distributors would define or measure 'net benefit'.

We are concerned that this exemption criterion is not expressed in terms of transparent benchmarks which can be easily verified. In the absence of clarity, there is potential for inconsistent application across the jurisdiction, and even within the same network. There is also potential that any network charges that the distributor determines payable would not be cost reflective.

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42 Firm Power, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.

43 EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 4.

The distributors also proposed that batteries receiving an exemption from network charges be required to waive their entitlement to avoided TUOS. However, EnergyAustralia submitted that this was not appropriate.[44]

Firm Power submitted that in the absence of consistent charging arrangements for distribution and transmission networks, storage assets will become concentrated in the transmission system, reducing the value of this technology in providing non-network services and in alleviating constraints in the distribution system.[45]

In our draft decision, we acknowledged the potential distortionary impact on investment that arises from different charging arrangements at the transmission and distribution levels. It is our view that this matter needs to be considered through broader policy decision-making in the context of ongoing reforms to the NEM.

We note the AEMC has foreshadowed that, during 2021, it will consult with stakeholders on potential changes required to the regulatory framework to support the efficient integration of distributed energy resources, including community batteries.[46] During the course of this review, charging arrangements for front of meter storage may be considered more generally in the context of the ESB reforms and the increasing uptake of this technology.[47]

Prior to this current regulatory review, distributors in other NEM jurisdictions did not propose specific pricing arrangements for grid-scale batteries as part of their tariff structure statements. If the revised proposals by the Victorian businesses were adopted, battery pricing arrangements in Victoria would be different to those elsewhere in the NEM despite operating in the same broader policy and regulatory framework.

Victorian Community Organisations submitted that a consistent regulatory pricing approach among the Victorian networks should be adopted.[48] We agree, but consider regulatory consistency should extend to all distribution networks across the NEM for the duration of this second round of tariff structure statement decisions, or until a clear policy decision to change the regulatory framework is made.

To this end, our final decision is to not approve the revised proposals for grid scale storage from the Victorian distributors. Instead we will maintain the status quo with battery capacity that provides non-network services being assigned to tariff classes and structures in the same manner as any other customer with a similar connection to and use of the network. To be clear, the portion of a battery providing network support services is exempt from network tariffs in the same way that any other asset providing standard control services is exempt. This approach is applicable to batteries, or any storage assets, whether owned by a distributor, its affiliate, or a third party.

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44 EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 3-4.

45 Firm Power, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.

46 Australian Energy Market Commission, *Electricity network economic regulatory framework 2020 review*, Final report, 1 October 2020, p. 42.

47 Energy Security Board, *Post-2025 market design directions paper*, January 2021, p. 78.

48 Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 31.

We anticipate specific pricing for grid-scale batteries may be a feature of the pricing reforms in the third round of tariff structure statement assessments, given the nature of the policy and regulatory reforms currently underway. As more grid-scale batteries are integrated into distribution networks, electricity distributors are likely to identify innovative ways to reflect the locational and dynamic costs of serving customers. This may result in alternative pricing structures, particularly if they are associated with differentiation in the use of network services by customers currently in the same tariff class.

In this context, Origin Energy submitted that it supports the distributors' proposals to adopt tariff trials in the 2021−26 regulatory period to better inform future tariff strategies.[49]

19.4.4 More detail required for tariff trials

Tariff trials in the first year of the regulatory period must be included in the tariff structure statement, However distributors have discretion to introduce further trials outside of their tariff structure statements in years two to five of the regulatory period under the sub-threshold tariff arrangements.[50] We have provided further guidance on the framework governing tariff trials on our network tariff reform webpage.[51]

The Victorian distributors intend to undertake a number of trials (both tariff and non-tariff) over the coming regulatory period. This is a constructive way to manage uncertainty arising from rapidly changing consumer preferences, activities, technologies, and changes in the broader regulatory framework.[52] Trials are also a useful way to improve the evidence base to inform future tariff strategies while managing the impact on consumers.

Proposed trials range from coordinated efforts to explore innovative charging arrangements for electric vehicle charging stations to tariffs for specific community battery projects. However, the details for many potential trials are still being developed. Most will not occur in the first year of the 2021–26 regulatory control period.

Only CitiPower, Powercor, and United Energy intend to introduce tariff trials in the first year, in addition to Powercor continuing the Newstead trial.[53] Through the development of tariff trials they have been engaging with stakeholders to explore tariff trials relating to:

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49 Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.

50 NER cl. 6.18.1C.

51 See https://www.aer.gov.au/networks-pipelines/network-tariff-reform.

52 In the 2021–26 regulatory period the AEMC will make decisions on a number of points the ability of distributors to charge for exports, the treatment of battery storage in the regulatory framework. The ESB will also deliver their guidance for the energy system post 2025 which may have implications for the role of distributors during this period as well.

53 CitiPower, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 11; Powercor, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 11; United Energy, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 11.

- two dynamic domestic electric vehicle tariffs in collaboration with retailers across the three networks; and
- an ARENA funded trial of 40 small, distributed batteries across the United Energy network.

Additionally, since submitting their revised proposed tariff structure statements in December 2020, CitiPower, Powercor, and United Energy have advised us of further trials in development:

- engaging with the electric vehicle public charging industry on alternative tariffs and services;
- supporting the Victorian Government's neighbourhood battery initiative; and
- engaging with the Yarra Energy Foundation community battery project in CitiPower's network.

AusNet Services and Jemena will only trial tariffs under the sub-threshold provision (i.e. in years two to five) as they will initially focus on broader DER initiatives. For AusNet Services this includes supporting ARENA funded efforts to explore orchestration of electric vehicle charging and to trial a DER marketplace in collaboration with AEMO (Project EDGE).[54] Jemena will focus on exploring the required information and systems necessary to identify and communicate DER constraints in its network through its Future Grid program.[55] CitiPower, Powercor and United Energy also have broader DER initiatives through their Future Network program.

We appreciate the distributor's engagement with us on their intended trial arrangements. But we require greater detail on tariff structures and their strategy for pricing these tariffs to approve their inclusion in CitiPower, Powercor and United Energy's final tariff structure statements. We provided similar guidance to Ausgrid on its proposed placeholder tariffs.[56] While the trial tariffs differ in that they would not become part of the standard tariff offering, we require more detail to allow these tariffs to be included in the approved tariff structure statements.

A complication to detailing tariff structures is that these distributors are still negotiating the details with the retailers and community groups they are collaborating with. For example, the agreement between CitiPower and the Yarra Energy Foundation was only announced on 27 January 2021. The final approved tariff structure statement has been edited to include information about the agreed arrangements to date, the distributors' intended structures, pricing methodologies, and potential changes in future years. The latter will be subject to ongoing negotiations.

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54 AusNet Services, *Revised regulatory proposal, Tariff Structure Statement Compliance Document*, December 2020, p 24 -25.

55 Jemena, *Revised Regulatory Proposal, Att 04-01 Response to the AER's draft decision – Capital expenditure*, December 2020, p 36.

56 AER, *Final Decision Ausgrid 2019 to 2024 Attachment 18*, April 2019, pp. 18-15 to 18-16.

We have also provided clarification that the trials detailed in tariff structure statements apply to the first year of the regulatory period only. Any continuation of these trials in future years will need to occur under the sub-threshold tariff provisions. To align these requirements, we added to tariff structure statements a commitment by distributors to keep revenue recovered by trial tariffs within the 0.5 per cent set by the NER for sub-threshold tariffs.

19.4.5 Clear tariff reassignment to support further reforms

The tariff structure statement must outline how the distributors will:

- assign customers to tariff classes
- assign customers to the tariffs within that tariff class.[57]

The NER requires all distributors to treat customers with the same connection and usage profile on a similar basis.[58]

The distributors responded to our draft decision request for greater clarity on their definition of tariff classes. For example, Jemena explained the use of 120 kVA to differentiate between small and medium businesses, relates to the maximum capacity an overhead service cable can supply.[59] CitiPower, Powercor and United Energy also made provisions to allow customers who change their connection and usage profile to move between tariff classes. Further detail on tariff class assignment is provided in Appendix A.

We require two amendments to ensure the policies for assigning customers to tariffs within their tariff class align with the requirements of the NER:

- electric vehicle owners, when identified by the relevant network, will no longer have access to flat rate network tariffs; and
- retailers can request tariff reassignment from distributors to help optimise their portfolios while consumers retain control over their retail offer.

The Department of Environment, Land, Water and Planning (DELWP) requested the distributors' assignment policies be amended so that electric vehicle owners are assigned to the new time of use (ToU) without access to the flat rate tariff.[60]
We supported this proposal in our draft decision. The distributors' revised proposals require amendments to clearly implement this policy. Once electric vehicle owners can be identified (e.g. through the creation of a register):

- AusNet Services proposed to assign these customers to the new ToU structure[61]

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57 NER cl. 6.18.1A(a)(1) and NER cl. 6.18.1A(a)(2).

58 NER cl. 6.18.4.

59 Jemena, *Revised regulatory proposal, Att 12-01 Tariff Structure Statement*, December 2020, p 13.

60 Victorian Department of the Environment, Land, Water and Planning, *Victorian Government submission on tariff structure statements 2021–26*, 29 May 2020, p 1.

61 AusNet Services, *Revised regulatory proposal, Tariff Structure Statement Compliance Document*, December 2020, p 27.

- Jemena stated it may seek to assign these customers to the new ToU structure[62]
- CitiPower, Powercor and United Energy proposed to align their assignment policies with the applicable Victorian Government Order.[63]

None of the distributors proposed to remove electric vehicle customer access to the flat network tariff.

Load from electric vehicle charging presents a challenge and an opportunity for distributors. With appropriate price signals the load for charging these vehicles can contribute to addressing emerging minimum demand issues. But inappropriate price signals mean these new loads may contribute to new network constraints requiring expensive additional investment to resolve. Tariff assignment policies should reflect these considerations. Hence our final decision is to make clear that electric vehicle owners may not access flat tariffs.

With respect to the decision as to which network tariff customers are assigned to, retailers remain the focus of network tariff reassignment processes. Retailers should be free to package network costs up with wholesale and other costs, in ways of their choosing to compete for customers.

The Victorian Default Offer regulatory intervention requires retailers to maintain a flat retail tariff offer.[64] Customers assigned to a cost reflective network tariff will retain access to a flat retail tariff should they prefer that option. Consumers are also supported through a number of complementary measures, such as subsidised in-home displays through the Victorian Energy Upgrades Program and comparison data from Victorian Energy Compare.

While the customer impact principles remain central to network tariff reform, distributors should not try to pre-empt the retail market outcome. Distributors should provide network price signals to inform the development of retail offers.[65] As discussed above, distributor's tariff assignment policies should focus on retailers. However, revised proposals were either unclear on this point or explicitly required customer consent for tariff reassignment:

- AusNet Services' revised proposal appears to only allow the retailer to request an alternative network tariff at the customer's instruction;[66]
- CitiPower, Powercor and United Energy did not explicitly state the process by which reassignment can be requested by the retailer or customer;[67] and

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62 Jemena, *Revised regulatory proposal, Att 12-01 Tariff Structure Statement*, December 2020, p 9.

63 CitiPower, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 4; Powercor, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 4; United Energy, *Revised regulatory proposal, Tariff structure statement*, December 2020, p 4.

64 Victorian Default Offer Order in Council, gazetted 30 May 2019.

65 AER, *Draft Decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy Distribution Determination 2021 to 2026 Attachment 19*, September 2020, pp. 19-18 to 19-19.

66 AusNet Services, *Revised regulatory proposal, Tariff Structure Statement Compliance Document*, December 2020, p 17.

- Jemena's revised proposal stated that the retailer, or a third party with authorisation from the customer, may request reassignment to a different tariff.[68]

We have modified the Victorian distributors' tariff assignment policies to clarify that tariff reassignment may be requested by retailers.

19.4.6 Long run marginal cost methodology

We consider the methods the Victorian distributors used to estimate long run marginal cost (LRMC) contribute to compliance with the pricing principles for direct control services (pricing principles).[69] We consider the Victorian distributors have achieved an appropriate balance between:[70]

- the benefits of using methods that better represent the concept of LRMC; and
- the costs those measures impose (information and administrative requirements).

The revised proposed tariff structure statements of CitiPower, Powercor and United Energy maintained their initial proposed approaches to estimating LRMC. As a result they also retained the LRMC estimates from their initial proposals.[71]

As with our draft decision, we commend CitiPower, Powercor and United Energy for advancing the development of LRMC estimation methods in the NEM with their approach.[72] CitiPower, Powercor and United Energy used the marginal incremental cost approach, which operates in principle like the Turvey approach, to produce LRMC estimates for each zone substation in their respective networks. We consider these are significant advances on the average incremental cost approach they used in their tariff structure statements for the 2016–21 period.

In our draft decision we noted that we considered the approach of AusNet Services and Jemena to estimating LRMC largely contributed to compliance with the pricing

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67 For example, page 5 of CitiPower's revised Tariff Structure Statement simply states "customers can opt out" and provides "tariff options" without providing an indication of the process for doing so.

68 Jemena, *Revised regulatory proposal, Att 12-01 Tariff Structure Statement*, December 2020, p 8; Jemena, *Revised regulatory proposal, Att 12-01 Tariff Structure Statement, Attachment A - Assignment and reassignment policy*, December 2020, p 11.

69 When assessing the Victorian distributors' LRMC estimation methods for compliance with the pricing principles, we had regard to our assessment framework for this second round of tariff structure statements (see appendix C of our previous distribution determinations: https://www.aer.gov.au/networks-pipelines/network-tariff-reform).

70 NER, cl. 6.18.5(f).

71 CitiPower, *Revised regulatory proposal - 2021–26 - APP06 - Tariff structure statement*, December 2020, pp. 20–23; CitiPower, *APP06 - Tariff structure statement technical*, 31 January 2020, pp. 21–24; Powercor, *Revised regulatory proposal - 2021–26 - APP06 - Tariff structure statement*, December 2020, pp. 20–23; Powercor, *APP06 - Tariff structure statement technical*, 31 January 2020, pp. 22–25; United Energy, *Revised regulatory proposal - 2021–26 - APP06 - Tariff structure statement*, December 2020, pp. 20–23; United Energy, *APP06 - Tariff structure statement technical*, 31 January 2020, pp. 21–24.

72 AER, *Draft decision: AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021 to 2026: Attachment 19: Tariff structure statement*, September 2020, pp. 37–41.

principles. This was particularly the case with regard to the estimation methods and forecast horizon they used to derive their LRMC estimates.[73]

With our draft decision we encouraged both AusNet Services and Jemena to explore ways to incorporate replacement expenditure (repex) into their LRMC methods for their revised proposals.[74] Below, we set out our assessment of this aspect of AusNet Services' and Jemena's LRMC revised tariff structure statement estimation methods.

Incorporation of repex into LRMC

AusNet Services

We are satisfied AusNet Services' decision to exclude repex as an input into its LRMC estimation method is appropriate at this stage of tariff reform. We are satisfied incremental demand is not a driver of AusNet Services' forecast repex for its 10-year forecasting horizon. AusNet Services' forecast repex therefore does not represent marginal cost, the cost of an incremental change in demand, and so should not be included as an input into LRMC estimates.

AusNet Services stated it excluded repex from its LRMC calculations because forecast changes in demand or energy consumption are not drivers of its repex forecasts. Rather, condition and risk factors (unrelated to the loads placed on the asset) are the principal drivers.[75] We are satisfied that excluding repex provides for AusNet Services' LRMC estimates to be consistent with the concept of 'marginal costs'. We note, however, that these issues are complex − as discussed below in relation to Jemena.

We encourage AusNet Services to continue exploring, in future tariff structure statements, ways to incorporate repex into their LRMC method to the extent that repex is driven by increased demand or patterns of usage of the network.[76]

In response to our draft decision, AusNet Services committed to giving further consideration to the inclusion of repex in future assessments of LRMC.[77]

Jemena

While we accept Jemena's LRMC estimation method, we consider the repex Jemena included in its estimation method may be inconsistent with the definition of long run marginal cost.[78] Incremental demand does not appear to be a driver of Jemena's forecast repex for its 10-year forecasting horizon. Such repex therefore would not represent marginal cost, the cost of an incremental change in demand. However, we

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73 AER, *Draft decision: AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021 to 2026: Attachment 19: Tariff structure statement*, September 2020, p. 41.

74 AER, *Draft decision: AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021 to 2026: Attachment 19: Tariff structure statement*, September 2020, pp. 37–41.

75 AusNet Services, *Tariff structure statement 2022–26: Explanatory paper*, January 2020, p. 66; AusNet Services, *Revised tariff structure statement 2022–26: Explanatory paper*, 3 December 2020, p. 54.

76 AER, *Draft decision: AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021 to 2026: Attachment 19: Tariff structure statement*, September 2020, pp. 37–41.

77 AusNet Services, *Revised tariff structure statement 2022–26: Compliance document*, 3 December 2020, p. 25.

78 NER, chapter 10.

recognise that these issues are complex and that another view may also be reasonable.

Jemena's revised tariff structure statement maintained its initial approach to estimating LRMC and the resulting LRMC estimates.[79] That is, Jemena retained in its LRMC estimate the repex that our draft decision asked to be removed.

Jemena stated that the repex it incorporated in its LRMC estimate would only reflect changes in demand if it also involves a resizing of the relevant assets.[80] Jemena therefore included repex in its LRMC calculations where this adds capacity to the network.[81] Further, Jemena stated it included only "the incremental capex above (or below) what a like-for-like capex cost would be".[82]

From this description and from Jemena's LRMC model, it remains unclear to us whether the repex Jemena included in its estimation method represents marginal costs. For example, Jemena's LRMC model described the drivers of its principal repex inputs as "routine (repex/connections)".[83] Jemena further described such expenditure as "non-augex".[84] This suggests asset condition and age, rather than changes in demand, are the principal drivers of Jemena's repex inputs. Hence, any resizing of assets may be a result of replacing assets with the modern equivalent, and not due to forecast changes in demand. These issues are, however, matters of nuance.

We accept that the distinction between enhanced capacity driven by demand and the same enhancements driven by replacement of aged assets with modern equivalents may be marginal. The additional capacity Jemena's assets achieve opportunistically through asset replacements may become necessary to meet growing demand beyond its LRMC forecast period.

So we retain our view that the repex included in Jemena's LRMC estimate may be inappropriate. However, our final decision is to not require Jemena to amend its method for estimating long run marginal costs for the 2021–26 regulatory control period. We consider doing so may provide only incremental benefits and would require significant changes to its tariff proposal. The basis for such changes may also, reasonably, be the subject of differing views.

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79 Jemena, *Revised regulatory proposal: Att 12-01 Tariff structure statement for 1July 2021 to 30 June 2026*, December 2020, pp. 21–22; Jemena, *Att 08-01 Tariff structure statement for 1 July 2021 to 30 June 2026*, 31 January 2020, pp. 19–20.

80 Jemena, *Revised regulatory proposal: Att 12-02 Tariff structure statement - Explanatory document for 1July 2021 to 30 June 2026*, December 2020, p. E-2.

81 Our draft decision stated Jemena did not include repex as an input into its LRMC calculations because Jemena's LRMC model did not include expenditure classified as "Replacement" under the AER reset RIN categories (see Jemena, *Att 08-03: Long run marginal cost model*, 31 January 2020, 'Capex calculations'!B138:U171). However, it appears Jemena considers expenditure classified as "Connections" under the AER reset RIN categories as repex for LRMC estimation purposes (see Jemena, *Att 08-03: Long run marginal cost model*, 31 January 2020, 'Capex calculations'!B116:U119).

82 Jemena, *Revised regulatory proposal: Att 12-02 Tariff structure statement - Explanatory document for 1July 2021 to 30 June 2026*, December 2020, p. E-2.

83 Jemena, *Att 08-03: Long run marginal cost model*, 31 January 2020, 'Capex calculations'!E116:U119.

84 Jemena, *Att 08-03: Long run marginal cost model*, 31 January 2020, 'Capex inputs'!N:N.

We encourage Jemena to reassess its approach to including repex in its LRMC estimates for its 2026–31 tariff structure statement proposal, as we discussed in our draft decision.[85]

19.4.7 Stakeholder submissions

We received several stakeholder submissions on the Victorian electricity distributors' revised proposed tariff structure statements. Submissions generally supported the distributors' revised proposals but noted that tariff structures and strategies can continue to improve. Key themes in the submissions included:

- support for progressing network tariff reform and better communication of tariff strategies,
- large consumers want distributors to keep exploring tariff structures,
- the emerging electrical vehicle industry needs to be considered further.

Support for progressing network tariff reform and better communication of tariff strategies

Stakeholders supported the distributors' proposed approach to progressing network tariff reform over the 2021–26 regulatory period. This included support for more cost-reflectivity for small and large user tariffs, tariff trials to inform future strategies and the integration of tariffs with distributors' DER policies and demand management measures.[86] However, stakeholders sought better understanding of longer term tariff strategies, how they will be implemented in the future, and how consumers will be impacted.[87] Stakeholders accepted that network tariff reform is an iterative process that will require ongoing support and engagement.

General support for more cost-reflective residential and small business tariffs

Stakeholders supported increased cost-reflectivity for residential and small business consumers. They supported uniformity and simplicity in tariff structures between the distributors to ensure that consumers can respond to more cost-reflective price signals. Stakeholders also want to understand how changes to tariff structures, such as increased fixed charges, impact residential and small business consumers.[88]

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85 AER, *Draft decision: AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021 to 2026: Attachment 19: Tariff structure statement*, September 2020, pp. 37–41.

86 For example see: Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12.; Spencer&Co report, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 17.; Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2;

87 For example see: Red Energy and Lumo Energy (Red and Lumo), *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12.

88 Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 29.

Stakeholders supported discounting cost reflective tariffs compared to the flat rate structure to encourage take up.[89] The CCP17 suggested further analysis regarding the benefits and downsides of discounting one tariff could be considered.[90] However, Energy Consumers Australia (ECA) commended the distributors for undertaking detailed impact analysis.[91] Both stakeholders supported the distributors taking informed steps to progress network tariff reform. Stakeholders also supported reassigning consumers on residential legacy ToU tariffs to further progress network tariff reform and simplify the structures for small users.[92] Stakeholders noted their support was informed by the provision of choice, including allowing consumers to opt out to a flat tariff.[93]

In our draft decision we outlined our support for aligning residential and small business tariff strategies and progressing network tariff reform. We also encouraged distributors to reassign customers currently on legacy cost reflective network tariffs.[94] The distributors adopted our suggestions and made no other material changes to their small business and residential tariffs. The distributors received strong stakeholder support for these actions and we maintain our support for them.

The CCP17 suggested it would be worth further exploring the role of networks in protecting vulnerable consumers.[95] While the CCP17 accepted that the final impact on customers is considered to some extent through the pricing principles, it proposed a greater focus on how retailers were packaging their network charges into their offers. In this context the CCP17 expressed disappointment that our draft decision referenced Victorian Government policies such as the Victorian Default Offer. The CCP17 went on to express support for a communication and education program to assist customers in understanding and responding to cost reflective tariffs.

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89 AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 77; Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 11

90 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 77.

91 Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12.

92 Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 29; Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 1.; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 76.

93 Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12; Red Energy and Lumo Energy (Red and Lumo), *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 29.

94 AER, *Attachment 19: Tariff structure statement | Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy 2021–26*, September 2020, section 19.4.1,

95 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 77.

In contrast to the CCP17, other stakeholders submitted that complementary policies under state based legislation expressly should be considered, including the Victorian Default Offer.[96]

Our position is that network tariffs and the associated reform program can and do take into account impacts on vulnerable consumers. Typically this is through the consideration of estimates of customer impacts associated with reassigning customers from one tariff structure to another. We and the networks put significant emphasis on customer impact assessments when designing and assessing tariff structures. However, this analysis is necessarily undertaken at a high level.

While administering the NER pricing principles under which tariff reform is delivered, we must also be mindful of the broader regulatory framework which determines the role of distributors.

Our guidance to AusNet Services advised that delivery of customer hardship initiatives is the responsibility of retailers, not distributors, and lists existing protections for vulnerable consumers.[97] We continue to hold this view. The concerns raised by the CCP17 in this regard are better directed towards the retail sector, associated parts of the NER, and towards jurisdictional governments with capacity to introduce complementary measures. And as described in our draft decision, a number of complementary measures administered by jurisdictional governments directly bear on customers' experience of network tariff reform. In our view it is appropriate for our tariff structure statement assessments to take such complementary measures into account.

On the specific remedy identified by the CCP17; a communication and education program, we note DELWP has initiated consultations with a number of stakeholders including distributors, retailers and ECA to consider this further.

More generally our view is that the primary responsibility for liaising with customers falls upon retailers. It is retailers who package network tariffs with other costs and pass those through to customers. Retailers determine which network price signals are passed through and which are not. And it is retailers who must manage wholesale market and network pricing risk. To the extent that other parties, including jurisdictional governments, are inclined to become active in this space we are supportive. We note though that there is potential to confuse customers with messaging about cost reflective tariffs, if customers are not exposed to those price signals.

Red and Lumo Energy submitted that it wanted a better understanding of how network tariff strategies interact with obligations placed on retailers by the Victorian government

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96 The VCO recognise that the VDO exists to protect vulnerable consumers. Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 29.

97 AER, *AusNet Services Trial – AER Staff Guidance Note 7: Customer Hardship*, 29 August 2019. <https://www.aer.gov.au/system/files/AER%20-%20AusNet%20Trial%20Staff%20Guidance%20Note%207%20-%20Customer%20hardship%20-%2020%20August%202018.pdf>.

such as the Victorian Default Offer.[98] The Victorian Default Offer price is set by the Victorian government and retailers are required to make it available to consumers.

In response to Red and Lumo Energy, we note that it is not within the distributors' scope to consider the potential risk placed on retailers by having to provide a standing offer to end users. As noted above, retailers manage a number of different risks, such as wholesale energy price volatility, in developing their retail offers. The proposed arrangements are consistent with Recommendation 14 of the Australian Competition and Consumer Commissions'' Retail Electricity Price Inquiry. This is for proposed mandatory assignment of retailers to cost reflective network pricing, with a requirement for retailers to continue to offer a flat rate option for consumers.[99]

As we stated in our draft decision, network tariff reform is targeted at retailers. They may manage network price signals by offering customers insurance style flat tariffs, pass network prices through to end users, or offer 'prices for devices' style offers. [100] The Baringa report we commissioned, found that retailers can create value for end users by responding to network price signals through 'prices for devices' retail offers.[101] We encourage retailers to continue to innovate to access this value through helping consumers shift and reduce their load, including through drawing on energy efficiency initiatives.[102]

Support for continued development of tariff strategies

Stakeholders acknowledged that tariff strategies have improved but can continue to be refined. For instance, ECA supported the further action distributors have taken to increase cost reflectivity but suggested greater narrative on the purpose and intended outcomes of the tariffs is still required.[103]

Stakeholders supported the improvements distributors have made by including clearer integration of DER and demand management initiatives with their tariff strategies. They appreciate that this is an evolving and important area but consider more can be done to better align and communicate the interlinkages between these initiatives and tariff strategies.[104]

We acknowledge that the distributors have made greater efforts to communicate these strategies, and this is the first time the relationship between demand management and

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98 Red Energy and Lumo Energy (Red and Lumo), *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp 2-3.

99 ACCC, *Retail Electricity Pricing Inquiry – Final Report*, June 2018, pp 187 – 188.

100 AER, *Attachment 19: Tariff structure statement | Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy 2021–26*, September 2020, section 19.4.1,

101 Baringa, *Value of optimised flexible DER*, July 2020.

102 For example, the Victorian Energy Upgrades program provides financial support for households to access more energy efficient household appliances and retailers could help consumers access these programs.

103 Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp 11 - 12.

104 Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 70.

tariffs has been given specific consideration in our final decision. The interlinkages between DER expenditure, demand management strategies and tariff strategies are explored further in Appendix B.

Stakeholders also supported further consideration of tariffs for grid-scale storage. In our draft decision, we did not make a decision on grid-scale storage given there was an expectation that the AEMC would provide a policy direction through the Integrating Energy Storage Rule change. Instead, we asked for stakeholder feedback on tariff treatment of batteries based on four options we outlined on the basis of the expected policy direction.[105] Firm Power, EnergyAustralia and the Victorian Community Organisations supported our fourth option that all distributors exempt grid-scale batteries from network tariffs if the battery is registered as a scheduled load.[106] EnergyAustralia also wanted further information, and considered that the use of the network and storage assets can continue to be optimised.[107]

We appreciate stakeholder feedback on our draft decision, and acknowledge that tariff treatment of grid-scale storage is an important issue which should continue to be explored. Section 19.4.3 includes discussion of our final decision on the tariff treatment of grid-scale batteries.

Large consumers want distributors to keep exploring tariff structures

Stakeholders were largely supportive of the distributors' large business tariffs but considered that large business tariffs can continue to evolve over time.[108] They acknowledged the reasons provided by the distributors for not offering large businesses choice, such as insufficient time to create an entirely new large business tariff[109] and the costs involved in such a tariff.[110] However, stakeholders supported trials to explore alternative large business tariffs for the 2026–31 regulatory control period.[111] It is also worth noting that while most stakeholders supported tariff choice for large businesses, the EUAA queried whether the benefits justified introducing a further large business tariff.[112]

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105 AER, *Attachment 19: Tariff structure statement | Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy 2021–26*, September 2020, pp. 29 – 32.

106 Firm Power, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 29. NB VCO also supports option 2.

107 EnergyAustralia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021.

108 Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12; AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

109 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 20211, p 78.

110 Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, *Spencer&Co Report*, January 2021, p 20.

111 Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

112 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 11. NB, EUAA's submission is targeted at AusNet Services.

We acknowledge the efforts the distributors have made to reflect stakeholder feedback on large business tariff structures. For example, the distributors have made their existing large businesses tariffs more cost reflective and have provided greater clarity in their revised proposals for businesses wanting to change tariff classes. The distributors have also committed to exploring the issue further through trials over this regulatory period as well. Choice for large business customers is discussed further in Section 19.4.1.

The emerging electric vehicle industry is looking for guidance

Stakeholders are interested in understanding how electric vehicle use can be better integrated with tariffs to help reduce the strain electric vehicle charging could place on networks. The electric vehicle industry has not previously been given specific consideration within our tariff structure statement assessments. In this case, the Victorian distributors, the charging station industry, the Victorian Government, and a number of consumer groups considered it important that the ability of tariff strategies to inform behaviour in the emerging electrical vehicle industry be explicitly considered.

Stakeholders submitted that electric vehicle users and charging stations should be provided with appropriate price signals to which they may respond. They expressed support for achieving a balance between facilitating electric vehicle take up and ensuring that tariffs remain technology neutral. They also wanted to be confident that consumers are paying their share of the use of the network.

For instance, DELWP made a submission to the distributors' initial proposals requiring that residential and small business electric owners be moved to the new, more cost-reflective ToU tariffs without access to the flat rate tariff.[113] This is intended to ensure these consumers are being integrated into the system from the beginning and will be encouraged to avoid placing strain on the network. We have edited the distributors' revised tariff structure statements to ensure this requirement is clear for customers and their retailers.

ECA and the CCP17 advocated for electric vehicle uptake to be incentivised to improve utilisation of existing infrastructure and to encourage distributors to trial alternative tariff arrangements in this period.[114] Other stakeholders also agreed that any trials should take into consideration that electric vehicle users and charging stations should ultimately be treated the same as other customers with similar loads.[115]

Some stakeholders had concerns specific to electric vehicle charging stations. Evie and the Electric Vehicle Council wanted to better understand the interaction between connections charges and network tariffs. They raised concerns that connection

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[113] Victorian Department of the Environment, Land, Water and Planning, *Victorian Government submission on tariff structure statements 2021–26*, 29 May 2020, p.1.

[114] Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 12; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 84.

[115] AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

arrangements and tariff assignment policies are expensive for charging stations and potentially prohibit investment in charging infrastructure.[116]

In response to Evie and the Electric Vehicle Council, we note that the NER requires load with similar characteristics to be treated consistently.[117] This means that charging stations should be assigned to the same tariff class and face the same tariffs as other customers with peaky demand but low utilisation. For example, irrigators and medical imaging facilities.

Assigning charging stations less cost reflective tariffs could give rise to increased risk of networks needing to undertake costly network investment to manage network constraints. Those investment costs would not be financed only by the charging stations but would be borne by all consumers connected to the relevant network.

On the connection charge issue raised by Evie and the Electric Vehicle Council, connection charges are calculated on the basis of expected future revenue to be earned by the distributor from the connecting consumer. Double charging for required augmentation of network assets is avoided by the methodology used to calculate connection charges. We provided guidance on this in our draft decision.[118]

More generally, we agree with stakeholders that electric vehicle charging behaviour is an important issue for electricity networks. To inform our final decision we held an electric vehicle workshop in November 2020, in addition to holding a number of bilateral meetings with stakeholders. This engagement supported our view that tariff trials over the next five years will help distributors understand how to signal the cost of serving these customers, and provide incentives for behavioural change. We encourage distributors to target these trials at both small electric vehicle customer tariff arrangements and at charging stations. More consideration of electric vehicles is provided in Appendix C.

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116 Evie, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 11; Electric Vehicle Council, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 6.

117 NER cl. 6.18.4(a)(2).

118 AER, *Attachment 18: Connection policy – Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy 2021–26*, September 2020, pp. 5-6.

A Assigning retail customers to tariff classes

This appendix sets out our determination on the Victorian distributors' principles governing the assignment or reassignment of retail customers for direct control services.[119] We approve their procedures for assigning and reassigning retail customers to tariff classes.

Procedures for assigning and reassigning retail customers to tariff classes

The procedure outlined in this section applies to direct control services for the regulatory control period commencing 1 July 2021.

Assignment of existing customers to tariff classes at the commencement of the next regulatory control period

Customers of the Victorian distributors will be taken to be assigned to the tariff class which was charging that retail customer immediately prior to 1 July 2021, if:

- they were a customer prior to 1 July 2021, and
- continue to be a customer as at 1 July 2021.

Assignment of new customers to a tariff class during the next regulatory control period

- New connection as identified through the receipt of a connection application will trigger assignment.
- Customers who lodge an application to modify or upgrade an existing network connection from single to three-phase or to bi-directional flow will be treated identically to a new customer. A change of occupancy will also be treated like a new customer for tariff class assignment.
- Customers will be assigned to a tariff class on the basis of the nature of the customer's usage (annual consumption and maximum demand), connection, and metering technology in accordance with the eligibility criteria defined in the distributor's approved tariff structure statement.
- The distributors will ensure that customers with similar connection and usage profiles, regardless of whether they have micro-generation facilities, are treated equally with respect to tariff class assignment.

Reassignment of existing customers to another existing or a new tariff class during the next regulatory control period

- Reassignment can be triggered when an existing customer's load, connection and/or metering characteristics have changed such that it is no longer appropriate

[119] NER cl. 6.12.1(17).

for that customer to be assigned to the tariff class to which the customer is currently assigned. A change in use between residential and non-residential (e.g. small business) will also trigger reassignment.

- Reassignment can be triggered by the distributor or a customers' retailer.
- Customers may notify their retailer if they identify that their current tariff class assignment is no longer appropriate.
- Retailers may make an application for tariff class reassignment at anytime, although customers within AusNet Services and Jemena's network will be limited to one application in any 12 month period per connection point. Distributors will consider exceptions on a case-by-case basis.
- Whether the retailer or the distributor initiates the tariff class reassignment, the distributor will use the system of assessment described above to reassign the customer to the appropriate tariff class.
- The tariff class change should be applied as soon as can be reasonably implemented.

Reassignment triggered by the customer's retailer

- Customers and their retailers should monitor the suitability of the tariff class applied.[120] Where a customer or their retailer identifies the existing tariff class is not suitable, they must advise the distributor of the need for reassignment.
- To request a tariff class reassignment on its own initiative or at the customer's request, the retailer must provide information[121] reasonably requested by the distributor.[122]

Reassignment triggered by the distributor

- Where the distributor initiates the tariff class reassignment, it will provide a notice to the customer's retailer prior to the actual tariff class reassignment.

Notification of proposed assignments and reassignments

- Distributors will notify their customer's retailer in writing of an intended reassignment of a customer to another tariff class.
- If a request for further information is received from a customer's retailer, it will be provided within a reasonable timeframe.

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120 CitiPower, Jemena, Powercor and United Energy will continue to provide an arrangement introduced in the 2017 amendment of the AMI Tariff Order in Council to allow business customers consuming under 160 MWh a year access to a tariff structure with the demand component set to zero regardless of the customer's tariff class.

121 To request reassignment from the large to small business tariff class, CitiPower, Powercor, and United Energy require confirmation that the load for the connection point has been limited to ensure the site cannot exceed demand greater than 120 kVA. The load can be limited through a supply capacity control device or other types of load limiting devices and a copy of the Certificate of Electrical Safety must be supplied as evidence of the works completed on site.

122 Please note Jemena requires this to be submitted using their Tariff Reassignment Form in Appendix C of their tariff structure statement.

- If the customer's retailer wishes to object to the tariff class reassignment, they need to demonstrate that the customer does not meet the eligibility criteria of the intended tariff class to which they have been assigned.[123]
- If an objection is received from the customer's retailer, the reassignment will be reconsidered taking into account the relevant facts, and the customer's retailer will be notified in writing of the reconsidered decision and the reasons for that decision.
- If the customer's retailer remains unsatisfied they may contact the Energy and Water Ombudsman (Victoria) or seek a decision from the Australian Energy Regulator using the dispute resolution process available under Part 10 of the National Electricity Law.

[123] Please note Jemena requires this to be submitted using their Tariff Reassignment Objection Form in Appendix D of their tariff structure statement and submitted to CustomerRelations@jemena.com.au.

B Integrating network tariff, demand management and DER integration strategies

Our draft decision requested that the Victorian distributors make linkages between their DER, demand management, and tariff strategies clearer. We did so because appropriate integration of tariffs with demand management and other initiatives ensures that consumers will pay no more than necessary for network services. It will also facilitate least cost integration of DER onto distribution networks.

This appendix explores how the distributors responded to our request for greater clarity regarding interactions between their proposed tariff strategies and initiatives to integrate DER technologies, including through demand management initiatives.

Consumers and stakeholders supported our request. Their submissions requested that distributors outline how their strategies are aligned and to provide a narrative as to how this fits into their longer-term pricing strategies.[124] [125]

Efficient integration of DER into networks can also facilitate the emergence of new markets and third party providers who can provide network support services to distributors. This has the potential to benefit customers, networks, and wholesale markets through aligning price signals and complementary measures to coordinate consumption, generation, storage, and use of networks.

Some strategies are consistent across Victorian distributors

The distributors made efforts to better explain the interlinkages in their revised proposal. For residential tariffs, they addressed stakeholder concerns about the adoption of a two part time of use tariff structure instead of a solar sponge amidst rising solar PV generation. They explained that their time of use tariffs would act similarly to SAPN's solar sponge tariff. This included a diagram to demonstrate how their low off-peak rates encouraged more consumption during the day and less during the early evening peak. By encouraging greater consumption during the day, these tariffs complement their efforts to accommodate increasing levels of solar exports on their networks.

Distributors also considered the impact of the current operating environment on network tariff reform. Factors such as tariff simplicity, equity and the rate of peak demand growth have meant that change has been gradual. It has also resulted in more targeted complementary initiatives, such as demand management. However, the

[124] Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2; CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 70; AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.

[125] ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 20211, p. 12; ECA, Spencer&Co report, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 17.

distributors recognised that tariff reform complements their DER integration strategies by driving the long-term behavioural changes they need from customers.

The distributors recognised that trials under the sub-threshold tariffs provisions of the NER can provide insights and evidence to inform their preparations for more cost reflective tariffs in the future.[126] It is encouraging that all Victorian distributors committed to either exploring or trialling new tariffs, with a particular focus on DER initiatives such as electric and storage, to complement their broader strategies.

We provide specific comments for each distributor below.

AusNet Services is building its knowledge through ARENA trials at this stage

AusNet Services provided information on how its current pricing approach encouraged its consumers to consider their usage patterns through a variety of price signals while allowing AusNet to consider demand management as a way to defer augmentation expenditure (augex).

For the next regulatory period, AusNet Services committed to developing tariff trials with interested participants. These include locational and individually calculated consumer cost-reflective tariffs that could apply to grid scale storage as well as specific DER and demand management initiatives. For example, AusNet Services committed to trials to complement the emerging electric vehicle industry through their involvement in ARENA's electric vehicle charging trial, as well as considering ECA's voluntary 'prices for devices' tariff.[127] We also note AusNet Services' involvement in ARENA's DER Marketplace trial, which should also yield consumer insights to inform future tariff structure statements.[128]

We are encouraged by AusNet Services' commitments and its openness to exploring new trials through a variety of means, including engagement with stakeholders to investigate new tariff structures. We expect that AusNet Services will use learnings derived from these projects as an evidence base for more cost-reflective tariffs in the third round of tariff structure statement proposals. This should reduce constraints in its network, whether consumption or export driven, and accordingly the expenditure required to manage them.

CitiPower, Powercor and United Energy already have a number of tariff trials underway

CitiPower, Powercor and United Energy provided a coordinated statement on how their tariff strategies align with demand management and other initiatives. Their explanation focused on how their DER integration program (Future Networks) would complement

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126 NER, cl. 6.18.1C.

127 AusNet Services, *Tariff structure statement – Explanatory document 2021–26*, 3 December 2020, pp. 24–25.

128 ARENA, *Distributed energy marketplace trial giving consumers an edge,* 2 December 2020, https://arena.gov.au/news/distributed-energy-marketplace-trial-giving-consumers-an-edge/, accessed on 29 January 2021.

their time of use tariffs to modify customer behaviour. The three distributors expect that they will at least halve augmentation capex investment for the next regulatory period compared to what would otherwise have occurred[129].

The three distributors identified tariff trials in their tariff structure statements that are planned to commence in the first year of the 2021–26 regulatory control period. These are mainly focused on emerging technologies and include working with retailers to develop:

- dynamic domestic electric vehicle tariffs
- a tariff for the Newstead community project
- another for the United Energy/ARENA battery trial.

We are encouraged by the three distributors committing to further new trials and making efforts to reduce their augex in the next period. We expect that the three distributors will reflect these efforts to introduce more cost reflective tariffs and to find further means to reduce expenditure in their 2026–31 tariff structure statement proposals.

Jemena is focusing on its Future Grid program

Jemena estimated that by the end of the next regulatory period around 12 per cent of its customers will be on the time of use tariff. Jemena considers this gradual change won't be material enough to reduce peak demand for the 2026–31 regulatory control period. Jemena will complement tariff reform with its Future Grid program.[130] Under this program Jemena hopes to implement dynamic export constraints to manage increasing solar generation in Jemena's network. These would work alongside its tariffs encouraging day-time consumption.

Jemena promised to continue monitoring the interactions between tariffs and behaviour change to inform future tariff structure statement proposals, and said that it would investigate the possibility of holding trials, such as for electric vehicle owners or charging stations after 2020–21.

While Jemena has made some efforts in making the links between its strategies clearer, we would like to see more coordination between its tariff strategy and expenditure in its 2026–31 tariff structure statement.

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[129] CitiPower, *Tariff structure statement – Explanatory document 202126*, 3 December 2020, p. 9; Powercor, *Tariff structure statement – Explanatory document 2021–26*, 3 December 2020, p. 9; United Energy, *Tariff structure statement – Explanatory document 2021–26*, 3 December 2020, p. 9.

[130] Jemena, *Att 12-02: Tariff structure statement – Explanatory document for 1 July 2021 to 30 June 2026*, 3 December 2020, p. 29.

C Electric vehicles

This appendix describes the implications of our determination on the Victorian distributors' tariff structure statements for the integration of electric vehicles and associated charging infrastructure.

The electric vehicle industry in Australia is in its early development. This is the first time electric vehicles have been given specific consideration in the context of a tariff structure statement determination.

We received a number of submissions regarding the treatment of electric vehicles and met with stakeholders to inform our draft decision. We then ran an electric vehicle workshop with participation from charging station companies, consumer groups, retailers, the Victorian Government and distributors. At the workshop a number of stakeholders presented on issues facing electric vehicle owners and charging station operators while we described our tariff structure statement draft decision and reasoning.

We support the distributors' continued engagement with electric vehicle stakeholders to explore how to implement more cost-reflective electric vehicle tariff strategies in their third round of tariff structure statement proposals. We note there is support from other stakeholders, such as from Infrastructure Victoria, for cost-reflective pricing to encourage businesses and individuals to shift their energy use to off-peak times and reduce constraints in the network.[131] However, there is also support from stakeholders for more work to be undertaken in this space to inform future tariff structures.[132] We will continue to work with distributors and stakeholders in Victoria and other jurisdictions to account for electric vehicle stakeholder views while progressing network tariff reform.

Residential electric vehicle users are encouraged to engage with cost reflective network tariffs

The Victorian Government requires all electric vehicle owners to be assigned to cost reflective tariffs, such as time of use or demand.[133] To implement this policy the distributors amended their tariff structure statement proposals to confirm that existing residential electric vehicle users, once identified, will be not have access to flat rate tariffs. We have edited the distributors' tariff structure statements to make this position even clearer for stakeholders.

Distributors will encourage existing electric vehicle users to move to the new time of use tariff by providing a discount relative to the flat rate tariff. They have also committed to exploring potential tariff trials for consumers with electric vehicles, with some distributors already in the process of establishing trials.

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131 Infrastructure Victoria, *Victoria's Draft 30-Year Infrastructure Strategy, Volume 1,* December 2020, p 47.

132 Submissions from CCP17, Evie, Electric Vehicle Council.

133 Victorian Department of the Environment, Land, Water and Planning, *Victorian Government submission on tariff structure statements 2021–26*, 29 May 2020, p.1.

The distributors have tried to address charging stations' concerns

All five distributors have made efforts to address concerns raised by electric vehicle charging stations. In particular they have made efforts to more clearly communicate the characteristics defining each tariff class and to provide optionality in their proposals. They have also committed to exploring potential structures to trial over the regulatory control period to inform their strategies for their 2026–31 tariff structure statements. Stakeholders support the use of trials during the 2021−26 regulatory period, and acknowledge that the electric vehicle industry is in its early development.[134]

Some stakeholders raised concerns that when demand tariffs are applied to peaky demand with low overall usage, the per unit costs can be quite high.[135] We note that these load characteristics are shared with a number of industries besides electric vehicles charging stations, such as irrigators and medical imaging facilities.

With their revised proposals the distributors made efforts to help customers better understand that the network must be built to accommodate peak demand and this is what drives the majority of their costs. It is inappropriate to look at usage alone when attempting to set cost reflective tariffs. With that said, the distributors made amendments to their proposed tariff structure statements to address concerns raised by charging station stakeholders.

Tariff class assignment policies must comply with the NER

One of the concerns raised by electric vehicle charging station stakeholders was that the large business tariff class does not take into account the relatively low usage of the network by charging stations, despite the high peaks.[136] The electric vehicle charging industry also questioned the suitability of peak demand (kVA) as a characteristic for these tariff classes, claiming that current tariffs hinder investment in electric vehicle charging infrastructure.[137] They requested a charging station-specific tariff based on consumption, rather than peak demand, as a short-term measure while a more cost-reflective tariff is developed and/or electric vehicle usage continues to be low relative to charging station peak demand.[138]

However, the distributors are unlikely to be able to establish a tariff class specifically for electric vehicle charging stations. The NER requires networks to establish tariff

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134 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 84; Origin Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

135 Submissions from Evie and Electric Vehicle Council.

136 Evie, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 1; Electric Vehicle Council, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 6.

137 Evie, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp 1-2; Electric Vehicle Council, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 7.

138 Evie, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2; Electric Vehicle Council, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 7.

classes which group consumers according to their load, connection and metering characteristics.[139] This means all customers must be treated like other customers with similar characteristics.[140]

Stakeholders submitted support for consistent treatment of customers with similar loads.[141] At this stage there is insufficient information to suggest that charging stations materially differ in their load characteristics, such as annual consumption and maximum demand, from other medium to large business customers.[142]

Moreover, for customers with peaky load profiles and potential to place significant strain on local network assets, tariffs signalling the costs of that load are appropriate. Without those price signals networks may have to invest in additional network capacity. All consumers will contribute to recovering those costs.

Distributors have amended their proposed tariff structure statements to address some of the electric vehicle charging industry's concerns. CitiPower, Powercor and United Energy are allowing customers on large business tariffs to move to other tariff classes if the load for the connection point is limited to 200 amps per phase, to ensure that the site cannot exceed a demand greater than 120 kVA.[143] AusNet Services also clarified that customers on its critical peak demand tariffs can request to either increase or decrease their capacity, with their network tariff increasing or decreasing accordingly.[144]

Additionally, CitiPower, Jemena, Powercor and United Energy have aligned their kVA criteria to 120 kVA to make this easier for stakeholders.[145] They clarified this criteria is important as 120 kVA is the maximum that can be supplied using overhead lines[146] while different assets are used to supply larger consumers. This criteria allows them to establish tariffs targeted at reflecting the costs of the assets used to supply different types of consumers.

Distributors have tried to provide more flexibility

The distributors have made efforts to provide greater flexibility, despite not introducing additional tariffs for the medium and large business tariff class. As discussed in Section 19.4.1, this partly reflects the challenges of designing and consulting on new tariff structures in short time periods. Stakeholders generally accepted this point.[147]

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139 NER cl. 6.18.4(a)(1).

140 NER cl. 6.18.4 (a)(2).

141 AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

142 AER, *Summary of EV workshop on Victorian tariff structure statement proposals for 2021–26*, 11 November 2020, p 2. <https://www.aer.gov.au/system/files/Summary%20-%20EV%20Workshop%20on%20VIC%20TSS_0.pdf>.

143 CitiPower, Powercor, United Energy; *Revised Regulatory Proposal, Tariff Structure Statement 2021–26*, December 2020, p 14.

144 AusNet Services; *Revised Tariff Structure Statement 2022 – 26, Compliance Document,* December 2020, p 23.

145 AusNet Services does not have this criteria but has also taken a different approach to tariff structures for the medium and large business tariff classes.

146 Jemena, *Revised Regulatory Proposal, Att 12-02, Tariff Structure Statement Explanatory Document,* December 2020, p 11.

147 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 78; AGL, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 2.

CitiPower, Jemena and Powercor proposed to transition to United Energy's tariff structures with an incentive demand component alongside the anytime demand charging component.[148] This means that while customers (including electric vehicle charging stations) will not have an option of tariff structure, they will have more ability to engage with price signals and reduce their bills by shifting their consumption outside the peak demand periods. Distributors have also provided a transition path for customers seeking to move across to the new structure incrementally.

The distributors have also committed to exploring tariff trials during the regulatory control period to enable more informed strategies for their next tariff structure statement proposals for the 2026−31 regulatory control period. This includes commitments to explore trials directly with charging stations.

Additionally, CitiPower, Jemena, Powercor and United Energy have stated in both their initial and revised proposed tariff structure statements that they will maintain an arrangement introduced by the Victorian Government in 2017. This arrangement allows for medium businesses which consume less than 160 MWh a year access to a tariff structure with the demand parameter set to zero. This arrangement applies regardless of tariff class.

The AMI Tariff Order in Council which introduced this arrangement is due to expire in June 2021. By including it in their proposed tariff structure statements the distributors have ensured it will remain for the 2021–26 regulatory control period.[149]

Distributors' are engaging with tariff trials

The distributors have been engaging with electric vehicle stakeholders both through the reset process and within broader NEM-wide processes such as the Distributed Energy Integration Program (DEIP) electric vehicle taskforces. These forums have been focused at both small customers with electric vehicles and charging stations providing supporting infrastructure.

For residential electric vehicle customers, AusNet Services and Jemena are engaging with ECA's proposed tariff to explore whether they can establish a trial later in the regulatory period.[150] Additionally, CitiPower, Powercor and United Energy are working with retailers to trial more dynamic electric vehicle tariffs in the first year of the

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148 CitiPower, Powercor, United Energy; *Revised Regulatory Proposal, Tariff Structure Statement, APP05, Explanatory Document 2021–26*, December 2020, p 17; Jemena, *Revised Regulatory Proposal, Att 12-02, Tariff Structure Statement Explanatory Document,* December 2020, p 61.

149 Jemena*, Initial Regulatory Proposal, Att 08-01, Tariff Structure Statement,* January 2020, p 14; Jemena, *Revised Regulatory Proposal, Att 12-02, Tariff Structure Statement, JEN tariff assignment and reassignment policy,* December 2020, p 9. ;United Energy, *Initial Regulatory Proposal, Tariff Structure Statement 2021–26*, January 2020, p 19; Powercor, *Initial Regulatory Proposal, Tariff Structure Statement 2021–26, January 2020,* p 20; CitiPower, *Initial Regulatory Proposal, Tariff Structure Statement 2021–26, January 2020,* p 19; CitiPower, Powercor, United Energy; *Revised Regulatory Proposal, Tariff Structure Statement 2021–26*, December 2020, p 6;AusNet Services, *Initial Tariff Structure Statement 2022 – 26, Compliance Document,* January 2020, p 8; AusNet Services, *Revised Tariff Structure Statement 2022 – 26, Compliance Document,* December 2020, p 9.

150 AusNet Services; *Revised Tariff Structure Statement 2022 – 26, Compliance Document*, December 2020, pp 24-25; Jemena, Revised Regulatory Proposal, Att 12-02, Tariff Structure Statement Explanatory Document, December 2020, pp 29, 69.

regulatory period, which could include nominating the half-hour pricing profile for each day, a day in advance.[151] These distributors have also committed to exploring alternative tariffs throughout the reset period.[152]

All five distributors have committed to exploring more innovative arrangements to trial for electrical vehicle charging stations.[153] Outside of tariff trials, Jemena, United Energy and AusNet Services are also involved in the ARENA / AGL electric vehicle trial to help test the impact of electric vehicle charging on the electricity grid.[154] This trial may have implications for future tariff strategies and trials.

While these trials will be progressed with the electric vehicle charging industry, the lessons they generate will inform the tariff strategies for all customers in the 2026–31 regulatory control period.

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151 CitiPower, Powercor, United Energy; *Revised Regulatory Proposal, Tariff Structure Statement, APP05, Explanatory Document 2021 2026*, December 2020, p 11.

152 CitiPower, Powercor, United Energy; *Revised Regulatory Proposal, Tariff Structure Statement, APP05, Explanatory Document 2021 2026*, December 2020, p 11.

153 NB: Jemena stated in its revised proposal explanatory document that it had not been approached by Evie or EVC regarding tariff trials before the draft decision was published. Jemena, *Revised Regulatory Proposal, Att 12-02, Tariff Structure Statement Explanatory Document,* December 2020, pp 69.

154 AGL, Media Release: AGL and ARENA launch 8 million trial to test impacts of electric vehicles, November 2020. https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2020/november/agl-and-arena-launch-8-million-trial-to-test-impacts-of-electric-vehicles

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced Metering Infrastructure
ARENA	Australian Renewable Energy Agency
augex	augmentation expenditure
capex	capital expenditure
CCP17	Consumer Challenge Panel, sub-panel 17
DELWP	Victorian Department of Environment, Land, Water and Planning
DER	Distributed energy resource
distributor	distribution network service provider
DPPC	designated pricing proposal charges
DUoS	distribution use of system
ECA	Energy Consumers Australia
EV	electrical vehicle
GESS	Ganawarra Energy Storage System
ICC	Individually calculated customer
LRMC	long run marginal cost
MWh	megawatt hour
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
repex	replacement expenditure
RIN	regulatory information notice
ToU	time of use
TUoS	transmission use of system

Shortened form	Extended form
VDO	Victorian Default Offer