

CitiPower Tariff Structure Statement 2017–2020 Overview Paper



At CitiPower, our vision is connecting for a brighter future

We are focused on providing our customers with outstanding value for money by maximising the efficiency of our operations, without compromising network safety and reliability.

Network tariff reform is one element of our broader demand management strategy which supports our vision.

From January 2017, we are proposing to introduce cost reflective tariffs. **Cost reflective tariffs ensure our customers are charged in a fair way, reduce the need for us to build more infrastructure, and lower electricity costs for our customers over the long term.**

For our residential and small to medium business customers, **our cost reflective tariffs structure will include a maximum demand charge.** How much you pay for using our electricity distribution network will increasingly depend on how and when you use our network.

Our customers can reduce their electricity usage at maximum demand times by spreading out their electricity usage.

By reducing maximum demand over time, we can minimise the need to build additional infrastructure that would only be used on a few very hot days each year. At the moment, 10 per cent of our network gets used less than two days each year.

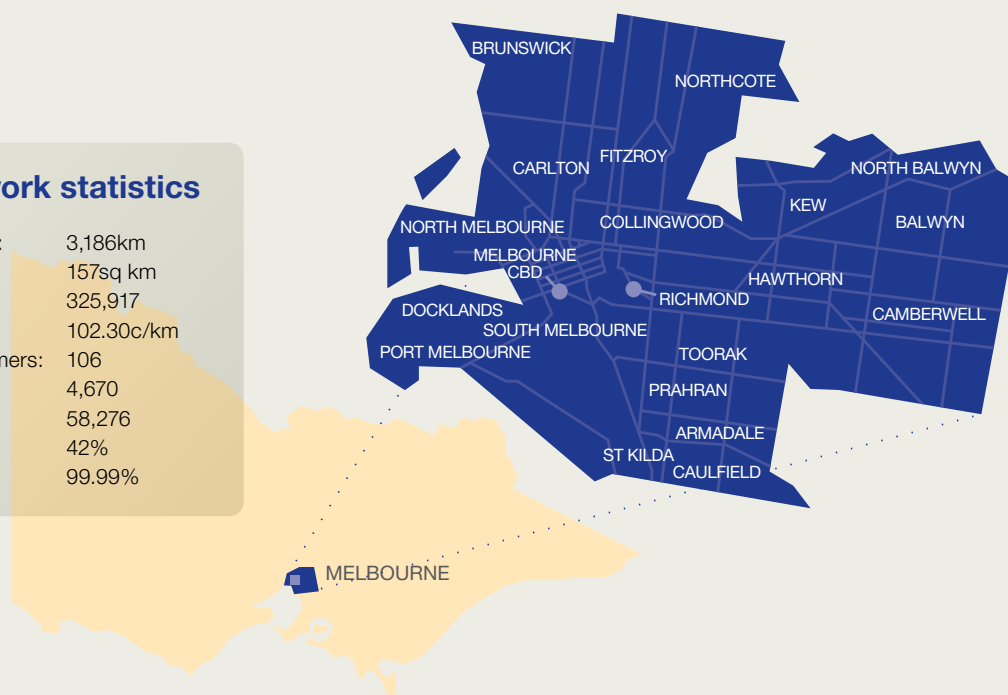
Over the longer term, we aim to continue to reduce the cost of running our network, and we remain committed to keeping the distribution network component of your bill as low as possible.

We are not making any more money by introducing cost reflective tariffs, however it means your electricity bill might change, depending on how and when you use electricity.

CitiPower Network statistics

Network route line length:	3,186km
Network area:	157sq km
Customer numbers:	325,917
Customer density:	102.30c/km
Zone substation transformers:	106
Distribution transformers:	4,670
Poles:	58,276
Underground lines:	42%
Network reliability:	99.99%

(As at 31 December 2014)



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Message from the CEO

Dear stakeholder,

The way Victorian households and businesses use energy is changing as customers continue to make choices that enable them to find the best energy prices, improve their energy efficiency, and generate and store their own electricity.

These customer choices require us to design and build our electricity network so that we continue to deliver the safe, reliable and affordable electricity supply you expect in a way that meets your evolving needs today and into the future.

Customer choice has also driven ongoing discussion about electricity pricing and the need for network tariff reform.

The good news is that Victorians already pay the lowest network costs in Australia. The introduction of more cost reflective tariffs will drive better efficiencies, ensure fairness and maintain affordability for our customers.

Our Tariff Structure Statement outlines our plans to introduce a maximum demand tariff which encourages our customers to spread out their electricity usage. This will reduce our peak demand, minimise the need for us to build more electricity distribution infrastructure, and lower electricity costs for all over the longer term.

The introduction of a maximum demand tariff will also encourage investment in energy-efficient household appliances; embedded generation and storage; and greater electricity use outside of the maximum demand period.

We know our customers want a cost-effective and reliable supply of energy, underpinned by smart energy solutions that support a sustainable energy future. We believe that tariff structures and options should better reflect customer needs so as to ensure efficient and targeted investment in building smarter, more responsive and resilient networks.

I want to take this opportunity to thank our customers, retailers and stakeholders who participated in our engagement program. Our commitment is to keep talking to you about tariff reform and other issues that affect your electricity supply and energy choices.

Finally, I encourage you to participate in the Australian Energy Regulator's separate and independent consultation on our Tariff Structure Statement.

Thank you again for your support in this process.



Tim Rourke
Chief Executive Officer



Our business

Who we are

CitiPower is the most efficient and one of the most reliable electricity distribution networks in Australia. As one of Victoria's five privately owned electricity distributors, we own and manage assets that deliver electricity to more than 325,000 homes and businesses across Melbourne's central business district and inner suburbs, including some of Australia's most iconic sporting and cultural facilities such as the Melbourne Cricket Ground, the National Tennis Centre and the Victorian Arts Centre.

We make a substantial contribution to the State's economic development – powering existing businesses and growth across the communities in which we operate.

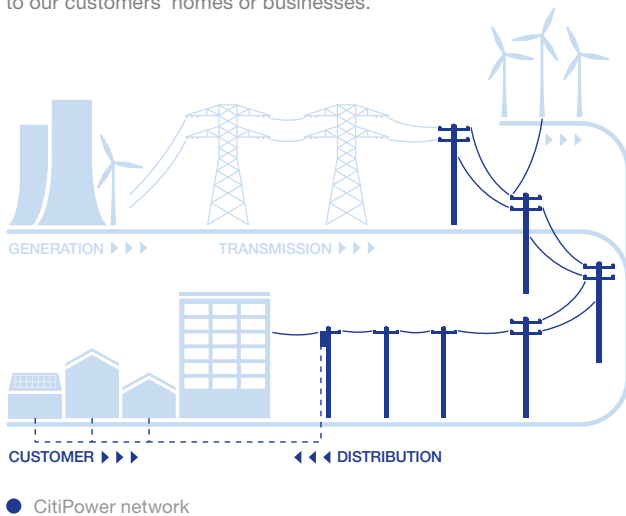
Our reliability performance has been achieved without compromising our record of being the most cost-effective distributor of electricity in the National Electricity Market. CitiPower customers pay the lowest distribution network costs in Australia, and Victorians pay the lowest distribution network charges in the country.

Our responsibility

We are responsible for maintaining distribution network safety and reliability, along with planning and designing network extensions and upgrades to meet our customers' current and future electricity needs. We operate the network on a day-to-day basis, connecting new customers, large and small, and we also provide metering services.

Transporting electricity to your place

Network charges cover the cost of transporting electricity from the generator through the transmission and distribution networks to our customers' homes or businesses.



Network charges cover the cost of transporting electricity from the generator through the transmission and distribution networks to our customers' homes or businesses. Metering charges cover the cost of the meter and meter data services. We pass network and metering charges on to electricity retailers, who pass them on to our customers via electricity bills.

In general, the electricity bill our customers receive from their retailer does not distinguish between network charges, metering charges and other charges.

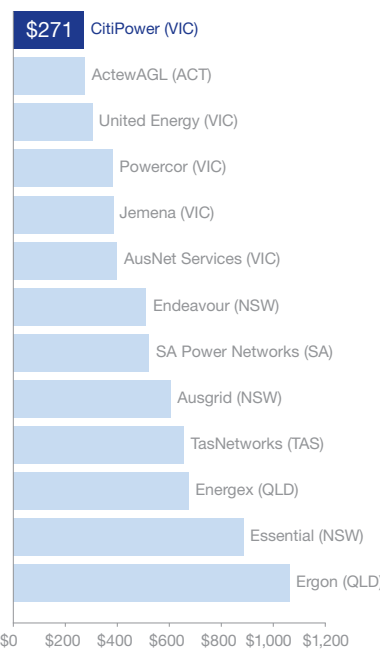
Delivering affordable pricing outcomes

CitiPower is a regulated business. Our revenue is determined by the Australian Energy Regulator (AER) in a regulatory determination process which takes place every five years.

Our carefully considered 2016–2020 regulatory proposal, submitted to the AER in April 2015, reflects the right balance between safety, reliability, growth and affordability. We will continue to meet our regulated service standards and obligations while minimising price impacts on our customers and ensuring we do not seek more revenue than is required to run our business.

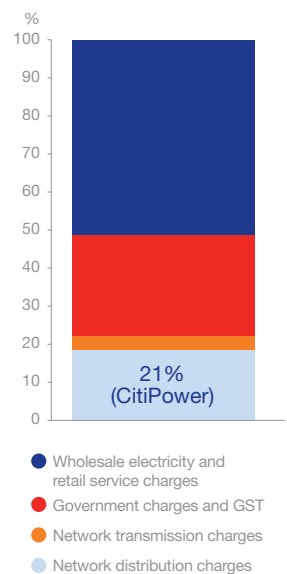
Our goal is to keep prices down and reliability stable.

How we compare – Distribution charges across Australia (2015 dollars)



Source: CitiPower analysis 2015

Today our network distribution charges are \$271 or 21% of the average household electricity bill which is \$1,301



Source: CitiPower pricing comparisons, 1995 to 2014, Oakley Greenwood

Network tariff reform

Our customers are changing the way they use electricity

The way in which Victorian households and businesses use electricity is changing, with customers making choices that enable them to manage the cost of their bills and lower their carbon footprint by:

- Taking advantage of energy-efficient appliances to reduce commercial and domestic energy use
- Installing solar photovoltaic (PV) panels, which increase the amount of electricity generation in our network
- Increased adoption of embedded generation solutions by our business customers to help meet their own electricity needs.

These customer choices require us to continually design, build and operate our electricity distribution network to meet changing electricity usage patterns.

Why we are changing our network tariff structures

We are changing our tariff structure in response to amendments made to the National Electricity Rules in December 2014. The amendments include new distribution network pricing arrangements.

Our proposed tariff structure ensures our customers are charged in a fair way and we can minimise the need to build more infrastructure. Over the long term, this will result in lower network charges for our customers.

We are proposing to charge customers more for electricity during maximum demand times, and less at other times. This will encourage customers to minimise their use of electricity at maximum demand times by spreading out their electricity usage.

Minimising electricity usage at high demand times means our customers can reduce the network distribution component of their bill. For CitiPower customers, this accounts for 21 per cent of the average household electricity bill (2014).

We will continue to respond to the changing environment

Tariff reform is one element of our broader demand management strategy. Other initiatives include:

- Smart meters – providing a range of operational benefits and enabling the transition to cost reflective tariffs. They provide real time data that helps customers take more control of their energy use to get better deals and participate in new markets. They also help us improve fault response and service quality, enable remote reading and connection services. We are the only Australian electricity distributor using the ‘last gasp’ function in smart meters to send a meter outage notification directly to customers who have registered for our SMS notification service, and via our website.
- Smart grid – implementing a system and process which enables our network to automatically restore supply to our customers in under one minute when there is a fault.
- Residential battery storage – understanding how battery storage at the residential level can help increase renewable penetration.
- Solar – we are using our own experience to help our customers make better decisions.
- Best practice demand management – supported City of Melbourne’s project to understand best practices of demand management in cities.

We will continue our ongoing commitment to find innovative ways to drive down network charges, and work with our customers and stakeholders throughout the process.

Cost reflective network tariffs

We are proposing to change our network tariff structure for residential and small to medium businesses from 1 January 2017. Doing so will ensure customers contribute their fair share to the cost of building and operating our network and help to continue to drive network costs down in the future.

The introduction of cost reflective tariffs encourages our customers to change their behaviour and spread out their electricity demand by minimising the use of household electrical appliances during maximum demand periods. This will reduce the need for us to build more electricity distribution infrastructure, which will help to lower electricity costs for our customers over the longer term.

Our approach

To design our proposed tariff structure and transition path, we looked at the electricity usage of our CitiPower customers. Through this analysis, a range of tariff reform options were considered. Our proposed tariff structure and transition arrangements reflect the results of our customer analysis and findings from consultation with our customers, retailers and other stakeholders.

Our outcome represents a carefully considered balance and structure, which we reached by consulting with our customers and stakeholders.

Proposed network tariff structure

Network charges cover the cost of transporting electricity to customers' homes or businesses. Electricity retailers apply these charges to bills which do not usually distinguish between network charges and other charges.

The existing network tariff structure includes:

- Fixed charge – covers the fixed cost of supplying electricity to customers' homes or businesses
- Usage charge – relates to how much electricity our customers have used.

Our proposed future network tariff structure will also include a maximum demand charge. The exception is customers on a controlled load tariff.

Customers will continue to be charged a fixed fee for metering services.

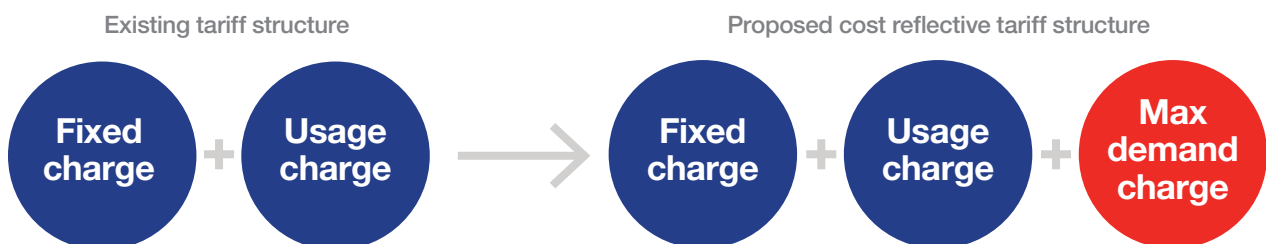
Maximum demand

Our network is built and maintained to meet our customers' total maximum demand for electricity at any point in time. When maximum demand increases, we need to make significant investment in the network to maintain the reliability of our service for customers.

The maximum demand period usually occurs from 3pm–9pm each day for residential customers and 10am–6pm for small to medium businesses. The highest demand occurs on the hottest days of the year, when customers use air conditioners and other electrical appliances at the same time.

Although historically we only have a few days each year where we hit our maximum demand, to ensure security of supply for these hot days, we need to invest more into our network to ensure we have the capacity to supply electricity to all our customers.

Moving to cost reflective tariffs



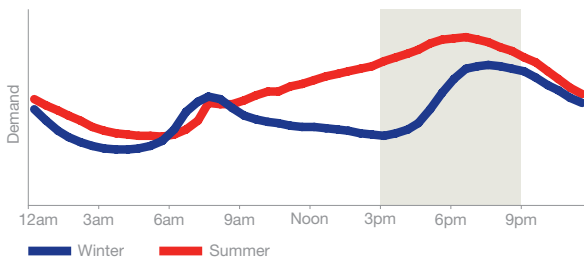
How we will measure the maximum charge

The maximum demand charge is a \$ per kilowatt charge. The maximum kilowatt is determined by measuring the maximum amount of electricity used in a 30 minute interval between the proposed times of 3pm–9pm for residential customers and 10am–6pm for small to medium businesses over the space of one month.

Maximum demand will not be measured on weekends and public holidays. The \$ per kilowatt charge will vary between summer and the cooler months, as maximum demand is higher in summer.

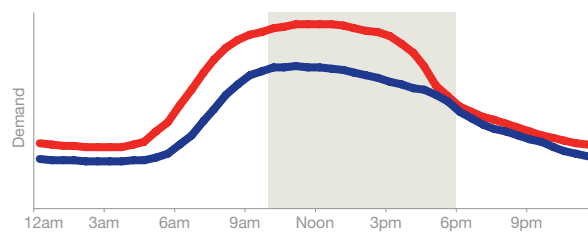
Maximum demand profile for residential customers and small to medium businesses

Residential



Source: CitiPower analysis 2015

Small and medium businesses



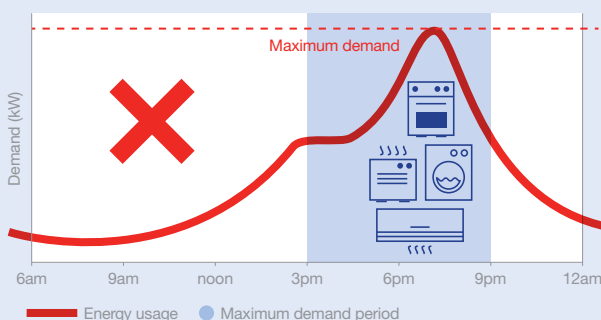
How residential customers can reduce their maximum demand

Spreading out electricity usage will reduce the overall demand on the distribution network. Reducing the need to build network infrastructure will result in lower costs for our customers over the longer term.

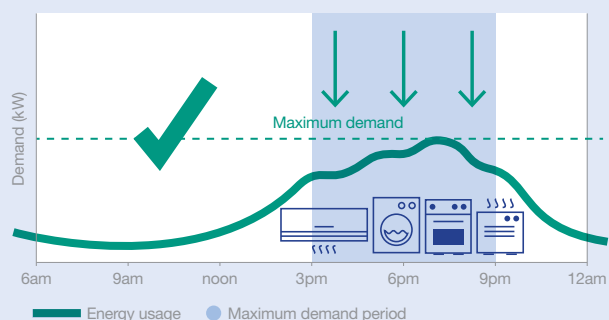
To reduce maximum demand our customers can:

- Spread out electricity usage by avoiding the use of multiple appliances simultaneously
- Choose to use household appliances such as dishwashers, washing machines and clothes dryers out of the maximum demand period.

Typical energy use during peak period



Spreading energy use during peak periods



Our customer, retailer and stakeholder engagement

Engagement is core to the strategic priorities of our business. We regularly consult and seek feedback to help us shape our future plans and business decisions.

In 2013 we commenced our stakeholder engagement program for the 2016–2020 regulatory control period. We undertook a research phase which found almost 60 per cent of our customers did not know who we were, what our role was or what services we provide.

We responded by launching www.talkingelectricity.com.au and delivering information to each of our customers via a mail out.

In 2014 we began engaging our customers around network tariff reform. We reached out to our customers via focus groups, online surveys and our publications.

In 2015 we used a range of consultation mechanisms to give our customers, retailers and stakeholders the opportunity to have their say on our proposed changes to network tariff structures.

We held face-to-face meetings and forums, engaged an independent market research company to deliver us insights, and communicated with our customers, retailers and stakeholders via our Talking Electricity website and e-news.

The feedback we gathered has helped to shape our proposed cost reflective tariffs structure for the 2017–2020 period.

Key insights

Effective communication and engagement is critical

Changes to tariff structures need to be transparent, extensively communicated and well understood by customers and key decision makers. Effective communication and engagement is critical.

We want greater sharing of on-site asset investment

Large electricity users felt there was a need for greater sharing of on-site asset investment.

Appealing and fair

The new tariff structure is as appealing and fair as the current structure.

We want to be in control

Our residential customers want to be in control of their own electricity usage, when and how they use electricity.

We want to save money

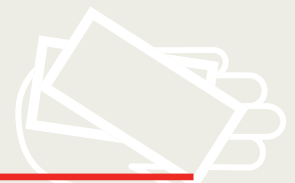
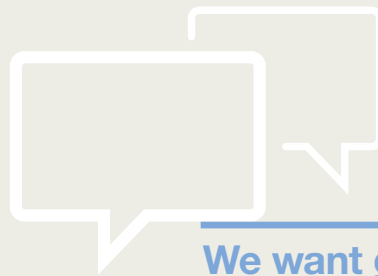
They are willing to change electricity usage behaviour if they can save money and limit use of appliances at maximum demand times.

No appetite to pay more for additional build on the network

There is no appetite among our small to medium business customers to pay more for any additional build on the network to support higher peak period usage.

It will be challenging to change

It will be challenging for our customers to change consumption behaviour to reduce network demand, due to their reliance on electricity at particular times.



What we did in 2014

Our engagement activities included:

- An online customer survey run by Colmar Brunton
- An online customer survey run by Nature Research and Deloitte Access Economics
- Residential customer focus groups conducted by Colmar Brunton
- Small to medium business and large electricity user interviews conducted by Colmar Brunton
- Feedback prompts in our Directions and Priorities Consultation Paper.

2014



What you told us about...

The current tariff structure

- Limited in its ability to reduce peak demand, incentivise energy efficiency and reduce power at critical periods
- It is unfair and results in consumers paying more
- Not economical to have a flat rate
- Too confusing.

Consumption based tariffs

- There is little appetite to pay more for additional build on the network to support higher peak period usage
- Unwilling to change consumption behaviour to reduce network demand during high peak periods.

Location based tariffs

- Residential customers and small to medium businesses are willing to spread the cost so those in areas that need additional upgrades are not faced with higher power bills
- Large electricity users said they lack social equity, disadvantage those in remote areas and present difficulties in stable cost forecasting.

Proposed introduction of a maximum demand tariff

- Help incentivise and affect the adoption of technologies to assist with the smart and efficient use of energy
- Must be transparent, well understood by customers and accompanied by an effective communication and engagement campaign
- Customers will not have to subsidise others who use large amounts of electricity.

We also asked you about...

Critical peak rebates if electricity usage is reduced on the hottest days of the year

- A majority of residential customers supported this rebate
- The top two preferred options for residential customers were to turn off their washing machine or air conditioner during the peak period.

Rebates for residential customers if they allow an electricity provider to remotely control appliances on the hottest days of the year

- The majority of customers said they like to be in control of their own electricity usage
- Customers with pool pumps supported a rebate for an electricity provider to remotely control them
- There was limited support for an electricity provider to remotely control air conditioners.



Social media campaign



Talking Electricity e-news



Bilateral meetings



Research

What we did in 2015

Consulted with customers, retailers and stakeholders on our proposed changes to network tariffs and the introduction of a cost reflective tariffs structure.



Fact sheets



Forums

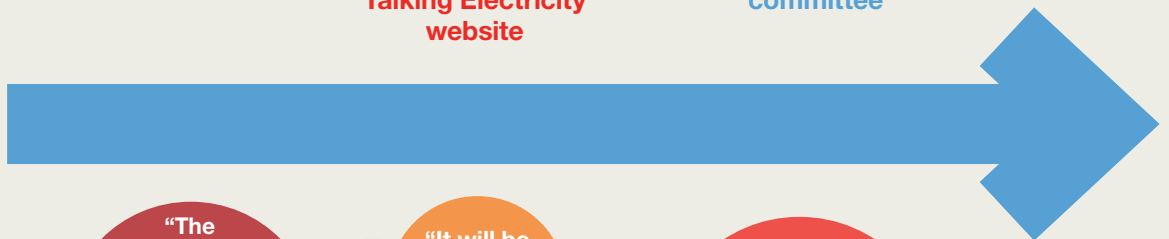


Talking Electricity website



Customer consultative committee

2015



“There is support for the introduction of a peak demand charge from 3pm to 9pm on weekdays, but not on weekends and public holidays”

“The delivery of consistent messaging throughout the tariff reform process will lessen confusion”

“It will be hard to avoid usage at the peak time”

“Consistency across all distributors on tariff structures will help retail customers better understand tariff structures”

What you told us

“You like to be in control of your electricity usage”

“The new tariff structure is more appealing”

“The transition to a demand tariff should be quicker”

“There is a willingness to change behaviour by limiting the use of washing machines and dishwashers to save money on electricity bills”

How we responded to your feedback

- We are working with the other Victorian distribution companies to ensure communication with our customers, retailers and stakeholders is clear and consistent throughout the network tariff reform process
- All Victorian distribution companies have agreed on one maximum demand period for residential customers, 3pm–9pm on weekdays
- The maximum demand charge will only apply on weekdays, not on weekends and public holidays
- We will transition our customers to the new cost reflective tariff structure over a four-year period
- Residential customers may opt-out of our demand charge in the first 12 months and continue on a residential non-demand tariff until the end of 2020
- We are not introducing location based tariffs or rebates as part of our proposed cost reflective tariffs structure.

Transitioning to cost reflective network tariffs

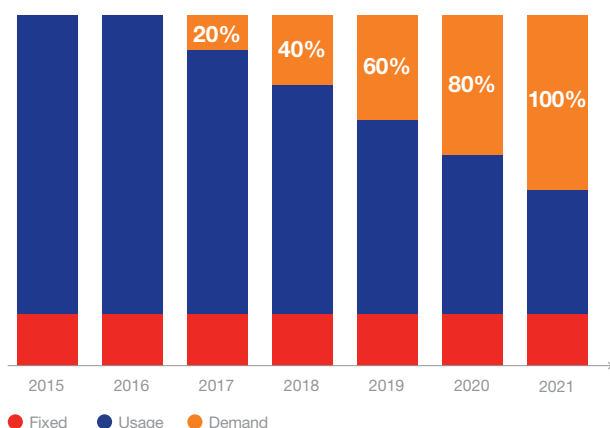
Understanding our new tariff structure

We are proposing to transition our customers to cost reflective tariffs over a four-year period, to give them time to understand the tariff structure changes and to become better equipped to respond.

Our new tariff structure and transition process has been informed by engaging with our customers, retailers and stakeholders, analysing customer impacts and ensuring we reflect our customers' needs, while delivering efficient and targeted investment in building a smarter and more resilient network.

Transition to cost reflective tariffs

The demand component will be completely phased in by 2021



Source: CitiPower analysis 2015

Our proposed transition to cost reflective tariffs

From 1 January 2017, we will begin to gradually introduce a demand charge into our existing tariff structure. At the same time, we will reduce the usage charge. This process will take place over a four-year period, until we introduce our fully cost reflective tariff structure from 1 January 2021.

New customers who join the CitiPower network from 1 January 2017 will automatically be placed on the new cost reflective tariff structure, which includes a demand charge.

Residential customers may opt-out of the demand charge in the first 12 months. The alternative tariff option for these customers will be a residential non-demand tariff. Customers who opt-out may remain on this tariff until the end of 2020.

Assisting with the transition to cost reflective network tariffs

We are developing a portal which will allow customers to view their usage patterns online. This will be available in 2016.

Information will be available over the coming months on our website, www.talkingelectricity.com.au.

Network tariff reform for large electricity users

Defining large electricity users

Our large electricity users are commercial and industrial customers who generally have a supply capacity of 120kW or more, and use more than 160MWh of electricity a year.

Tariff structure

We are planning to make refinements to tariff structures for our large electricity users for 2016. The 2016 structure will include: a fixed charge, peak usage charge, off-peak usage charge and a 12-month rolling maximum kVA demand charge. We are not proposing to make any further changes to network tariff structures over the 2017–2020 period.

The conversation will continue...

We will continue to work with large electricity users and retailers on network tariff reform. Over the coming period, we may conduct critical peak pricing or critical peak rebate trials, which will encourage customers to reduce their electricity usage during peak periods. We will keep you informed about trials we are planning to undertake via our Talking Electricity e-news and website, www.talkingelectricity.com.au.

We encourage our customers, retailers and stakeholders to take part in the AER Tariff Structure Statement determination process.

- **25 September 2015** – CitiPower submits its proposed Tariff Structure Statement (TSS) to the AER and the consultation process begins:
 - AER reviews the proposed TSS for compliance with the National Electricity Rules
 - AER publishes the proposed TSS and issues an invitation for written submissions
 - AER publishes an issues paper
 - AER asks for written submissions on the issues paper and extends an invitation to attend a public forum
- **By 22 February 2016** – AER publishes the draft determination on the proposed Tariff Structure Statement
- **By 29 April 2016** – CitiPower submits its revised Tariff Structure Statement to the AER
- **29 July 2016** – AER final determination on the Tariff Structure Statement
- **By 30 September 2016** – CitiPower's 2017 annual pricing proposal is submitted to AER. The annual pricing proposal contains the proposed network tariffs for 2017
- **Mid-November 2016** – AER decision on 2017 annual pricing proposal
- **1 January 2017** – New network tariffs for 2017 take effect.

To keep up-to-date with network tariff reform and key CitiPower initiatives visit www.talkingelectricity.com.au and consider subscribing to our e-news.

For more information about distribution network tariff reform visit: www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements

For details of the AER's network pricing determinations visit: <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs>