

Distributors should explore tariff trials

As the second round of tariff structure statements (TSS) come into play, the AER hopes to see distributors increasingly use tariff trials to inform their tariff strategies and explore more complex, innovative tariffs in a controlled manner. Trials allow distributors to develop and refine alternative approaches and provide proof of concept to build retailers' and consumers' understanding and trust. To pursue tariff trials under the regulatory framework we think distributors need to follow these steps:

- Clearly outline how trials fit into your tariff strategy as part of your TSS proposals. For example, whether the focus of trials will be locational issues, signalling long run marginal cost, or effective residual cost recovery and how the strategy may change
- If you plan to introduce a trial in the first year, outline the details in the TSS such as how it fits into the strategy, the intended duration, how it might be refined, etc. This enables innovation while supporting the objective of the TSS to provide certainty.
- Notify your intention to introduce trials in subsequent years through the annual pricing proposal and provide clear links to broader TSS strategy and specifications of trial(s).
- Report on results of tariff trials and how this learning has been used by the business. This includes using the results as evidence to support the third round of TSS.

Tariff trials are allowed under the Rules

The AEMC's [2014 Rule Determination](#) is clear that the intention for the sub-threshold tariff clause (6.18.1C) was to enable tariff trials. This clause allows a distribution business to introduce tariffs not covered by its approved TSS as long as it informs the AER, retailers and customers and does not recover more than 0.5% of the annual revenue requirement. Distributors are allowed to run multiple trials as long as no more than 1% of revenue is recovered from all the tariff trials it is running each year. Although this mechanism cannot be used in the first year of the TSS. We see this as offering businesses the opportunity to explore innovative tariff strategies while protecting consumers from the wide scale introduction of tariffs they may struggle to understand or respond to.

Recent AER decisions support use of this flexibility

The AER encourages trials and has provided insights on what trials might be appropriate and support broader tariff reform in our recent draft and final decisions on TSS across the country. For example, in [draft decision on SA Power Network's proposed TSS](#) endorsed their approach to using trials to support and inform tariff strategies. This included offering consumers the optional residential 'prosumer' tariff proposed for 2020 to 2025 on a trial basis in 2019/20 and continuing to trial and refine locational demand tariffs with businesses in the Riverland region.

Our draft decisions for Energy Queensland's [Ergon Energy](#) and [Energex](#) encouraged trials of the proposed capacity tariffs for residential and small business customers we did not approve. Our decisions were based on concern about the complexity of these proposed capacity tariffs and whether they complied with the customer impact principles. We encouraged these distributors to trial the proposed capacity tariffs to inform their subsequent TSS (2025-30). We advised that each trial needs a clear purpose and that the results of such trials can help build stakeholder understanding and inform the design of a new capacity tariff proposal in the 2025-30 regulatory control period.