

# Tariff structure statement

United Energy  
2021-2026



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# 1 About this tariff structure statement

## 1.1 Introduction

United Energy is submitting this Tariff Structure Statement (TSS) to the Australian Energy Regulator (AER) in accordance with the requirements of the National Electricity Rules (the Rules).

We have also submitted a Tariff Structure Explanatory Statement that provides our reasons for proposing the tariff structures in this document and explains how they are compliant with the Rules.

## 1.2 Structure of this TSS

United Energy's TSS structure is presented in the table below:

| Chapter | Title                                  | Purpose  |
|---------|--|--|
| 2       | Tariff classes and assignment policies | Description of the structure and purpose of the document   |
| 3       | Structure and charging parameters      | The structure and charging parameters for our tariffs are set out in this section in addition to the policies and procedures for assigning retail customers to tariffs |
| 4       | Approach to setting tariffs            | This section describes our approach to setting tariffs, charging parameters and windows as well as calculation of avoided and stand alone cost and estimation of LRMC  |
| A1      | Glossary                               | This section provides definition for some key terms used in TSS  |
| A2      | Long run marginal cost                 | A description of how long run marginal cost was calculated and the results   |
| A3      | Indicative pricing schedule            | This section sets out indicative prices for the regulatory control period  |
| A4      | Alternative control services           | A description of alternative control services and how we will charge for them  |
| A5      | Compliance checklist                   | This section sets out a checklist that identifying where each of the TSS Rule Requirements are met in this submission  |






## 2 Tariff classes and assignment policies

### 2.1 Tariff classes

Standard control services are categorised into five tariff classes.

- residential
- small and medium business
- large low voltage
- high voltage
- sub-transmission

Figure 1 Tariff classes

|   | Tariff class              | Supply voltage | Annual consumption                   |
|---|---------------------------|----------------|--------------------------------------|
|    | Residential               | < 1 kV         | N/A                                  |
|  | Small and medium business | < 1 kV         | < 400 MWh pa<br>< 150 kVA max demand |
|  | Large low voltage         | < 1 kV         | > 400 MWh pa<br>> 150 kVA max demand |
|  | High voltage              | 1 kV – 22 kV   | N/A                                  |
|  | Sub-transmission          | ≥ 22 kV        | N/A                                  |

All alternative control services are a separate asset class.

## 2.2 Allocation of customers to tariff classes

### Assignment of existing customers to tariff classes

- Each customer immediately prior to 1 July 2021 will be taken to be “assigned” to that tariff class from 1 July 2021.

### Assignment of new or modified connections to a tariff class

- The process under which new customers are assigned to network tariff classes occurs following the receipt of a connection application by the customer or their retailer. A customer that lodges an application to modify or upgrade an existing network connection from single to three-phase or upgrades their connection to a bi-directional flow is treated identically to a new customer.
- If United Energy becomes aware of new or modified connection, then United Energy will determine the tariff class to which the customer of that connection will be assigned in accordance with the eligibility criteria in this tariff structure statement.

### Reassignment of existing customers to tariff classes

- Checks that existing customers meet the eligibility criteria for their tariff class will be periodically conducted.
- If a customer clearly does not meet the eligibility criteria, they will be transferred to the appropriate tariff class following the notification process below.

### Notification of proposed reassignments

- The customer’s retailer will be notified 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, then it will be provided within a reasonable timeframe.
- 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.

## 2.3 Assignment policies

### 2.3.1 Residential

We will assign the following customers onto a new two-rate time-of-use (ToU) tariff, with a peak period occurring between 3pm to 9pm local time all days and off peak applying at all other times (default ToU):

- New connections (i.e. new homes connecting to the network for the first time, not re-energisations)
- Customers who choose to upgrade from single-phase to three-phase supply
- Customers who choose to install solar or batteries
- Customers on an existing ToU tariff with a peak period of 3pm to 9pm as at 1 July 2022
- Should a register of customers who purchase electric vehicles or other robust means of identifying an electric vehicle customer over the 2021-26 period arise, we would also seek assign these customers to the default TOU tariff.

Customers on the winter energy tariff as at 1 July 2022 will be re-assigned to the single-rate tariff.

Customers on existing ToU tariffs with a peak period that is not 3pm to 9pm will be consolidated into a single legacy ToU tariff with a peak period of 7am to 11pm local time.

The existing demand tariff with a seasonal demand charge, flat usage charge and fixed charge will be retained as an opt-in residential tariff.

The existing dedicated circuit tariff will be retained.

The following table summarises all the residential tariffs as at 1 July 2022.

Figure 2 Residential tariff summary

| Proposed tariffs  | Proposed assignment <sup>1</sup>  | Tariff options             |
|-------------------|---|----------------------------|
| Default ToU       | New connections<br>Supply upgrades to three-phase<br>Households installing solar or battery<br>Existing ToU customers with 3pm to 9pm peak period | Single-rate or demand      |
| Single-rate       | Existing winter energy tariff customers<br>All existing customers remain  | Default ToU or demand      |
| Legacy ToU        | All existing customers on a legacy ToU tariff   | Closed                     |
| Demand            | All existing customers remain   | Single-rate or default ToU |
| Dedicated circuit | All existing customers remain   | Any new eligible load      |

### 2.3.2 Small and medium business

This tariff class comprises:

- small businesses consuming less than 40 MWh per year
- medium businesses consuming more than 40 MWh per year and less than 400 MWh per year with a maximum demand of less than 150 kW
- unmetered supplies.

#### Small business

We will assign the following small business customers onto a new two-rate ToU pricing structure, with a peak period occurring between 9am to 9pm workdays local time and off peak applying at all other times (default ToU):

- New connections (i.e. new small businesses connecting to the network for the first time, not re-energisations)
- Customers who choose to upgrade from single-phase to three-phase supply
- Customers who choose to install solar or batteries
- Small and medium business customers on any non-demand ToU tariff as at 1 July 2021.

Small and medium business customers on the low voltage large 1 rate tariff will be re-assigned to the non-residential single rate tariff as at 30 June 2021.

Small and medium business customers on existing ToU demand tariffs will be re-assigned to the existing non-residential demand tariff as at 30 June 2021.

<sup>1</sup> Customers on basic meters will be reassigned to single rate tariff as at 1 July 2022.

The existing non-residential demand tariff with a seasonal demand charge, flat usage charge and fixed charge will be retained as an opt-in small and medium business tariff.

The existing dedicated circuit tariff will be retained.

The following table summarises all the small business tariffs as at 1 July 2021.

Figure 3 Small business tariff summary

| Proposed tariffs  | Proposed assignment <sup>2</sup>   | Tariff options             |
|-------------------|--|----------------------------|
| Default ToU       | New connections<br>Supply upgrades to three-phase<br>Households installing solar or battery<br>Existing non-demand ToU customers | Single-rate or demand      |
| Single-rate       | All existing customers remain<br>Existing low voltage large 1 rate customers   | Default ToU or demand      |
| Demand            | All existing customers remain<br>Existing demand ToU customers   | Single-rate or default ToU |
| Dedicated circuit | All existing customers remain  | Any new eligible load      |

### Medium business

Any new medium business customer will be assigned to the demand tariff which comprises a seasonal demand charge, a flat usage charge and a fixed charge

These customers will have the option of opting out to any small business tariff.

Figure 4 Medium business tariff summary

| Proposed tariffs  | Proposed assignment                              | Tariff options             |
|-------------------|--|----------------------------|
| Default ToU       | All existing customers remain                    | Single-rate or demand      |
| Single-rate       | All existing customers remain                    | Default ToU or demand      |
| Demand            | All existing customers remain<br>New connections | Single-rate or default ToU |
| Dedicated circuit | All existing customers remain                    | Any new eligible load      |

### Unmetered supplies

We will continue to charge a two-rate ToU tariff with a 7am to 11pm weekdays peak period.

### 2.3.3 Large business

Large business cover the large low voltage, high voltage and sub-transmission tariff classes all of which have the same tariff structures as follows:

- Billed rolling kVA demand is the maximum 30-minute kVA demand over a 12 month rolling period measured from 8am to 8pm on work days
- Summer incentive demand is the maximum 30-minute kVA demand over the billing month between 3pm and 6pm local time on workdays

<sup>2</sup> Customers on basic meters will be reassigned to single rate tariff as at 1 July 2021

- Peak usage charge for usage between 8am and 8pm on work days
- Off-peak usage charge for usage that is not during peak times.



### **3 Structure and charging parameters**

The structure, charging parameters and eligibility criteria for the tariffs offered for customers in each of our tariff classes is set out below.<sup>3</sup>

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<sup>3</sup> During the TSS period, United Energy may need to introduce new tariff codes for billing purposes. Any new tariff codes introduced will comply with the tariff structures outlined in this document for each tariff class and the price level for NUOS services will equate to the tariff type under which the new tariff code has been created.

Figure 5 Residential tariff class<sup>4</sup>

| Tariff type       | Tariff Code | Supply voltage | Energy threshold | Status              | Standing<br>c/day | Anytime energy<br>c/kWh | Peak energy<br>c/kWh | Shoulder energy<br>c/kWh | Off-peak energy<br>c/kWh   | Summer demand <sup>5</sup><br>c/kW/day | Non-summer demand<br>c/kW/day |                  |  |
|-------------------|-------------|----------------|------------------|---------------------|-------------------|-------------------------|----------------------|--------------------------|----------------------------|--|-------------------------------|------------------|--|
| Default ToU       | URTOU       | < 1 kV         | N/A              | Default             | ✓                 |                         | 3pm-9pm              |                          | 9pm-3pm                    |  |                               |                  |  |
| Single rate       | LVS1R       |                |                  | Opt-in              | ✓                 | ✓                       |                      |                          |                            |  |                               |                  |  |
|                   | WET2Step    |                |                  | Closed <sup>6</sup> | ✓                 | ✓                       |                      |                          |                            |  |                               |                  |  |
| Demand            | RESKW1R     |                |                  | Opt-in              | ✓                 | ✓                       |                      |                          |                            |  | workdays 3pm-9pm              | workdays 3pm-9pm |  |
| Legacy ToU        | LVS2R       |                |                  | Closed              | ✓                 |                         |                      | workdays 7am-11pm        |                            |  | workdays 11pm-7am, weekends   |                  |  |
|                   | TOD         |                |                  | Closed <sup>7</sup> | ✓                 |                         |                      | workdays 3pm-11pm        | workdays 7am-3pm           |  | workdays 11pm-7am, weekends   |                  |  |
| Residential ToU   | TOD9        |                |                  | Closed <sup>8</sup> | ✓                 |                         |                      | workdays 3pm-9pm         | workdays 7am-3pm           |  | workdays 9pm-7am, weekends    |                  |  |
|                   | TODFLEX     |                |                  |                     | ✓                 |                         |                      | weekdays 3pm-9pm         | weekdays 7am-3pm, 9pm-10pm |  | weekdays 10pm-7am, weekends   |                  |  |
| Dedicated circuit | LVDed       |                |                  | Opt-in              |                   |                         |                      |                          |                            | ✓                                      |                               |                  |  |

<sup>4</sup> Time parameters for all residential tariffs are reflected in local time from 1 July 2022

<sup>5</sup> Summer demand period is December to March

<sup>6</sup> On 1 July 2022 all load moved to LVS1R

<sup>7</sup> On 1 July 2022 all customers moved to LVS2R

<sup>8</sup> On 1 July 2022 all customers moved to Default TOU

Figure 6 Small and medium business tariff class<sup>9</sup>

| Tariff type                    | Tariff Code | Supply voltage | Energy threshold                 | Status                                      | Standing<br>c/day | Anytime energy<br>c/kWh | Peak energy<br>c/kWh | Shoulder energy<br>c/kWh | Off-peak energy<br>c/kWh | Summer demand <sup>10</sup><br>c/kW/day | Non-summer demand<br>c/kW/day     |                      |  |
|--------------------------------|-------------|----------------|----------------------------------|---|-------------------|-------------------------|----------------------|--------------------------|--------------------------|---|-----------------------------------|----------------------|--|
| Non-residential ToU            | UTOU        | < 1 kV         | < 400 MWh pa<br>< 150 kVA demand | Default (below 40 MWh pa, otherwise Opt-in) | ✓                 |                         | 9am-9pm              |                          | 9pm-9am                  |   |                                   |                      |  |
| Non-residential single rate    | LVM1R       |                |                                  | Opt-in                                      | ✓                 | ✓                       |                      |                          |                          |   |                                   |                      |  |
| Non-residential demand         | LVMKW1R     |                |                                  | Default (above 40 MWh pa, otherwise Opt-in) | ✓                 | ✓                       |                      |                          |                          |   | workdays<br>10am-6pm              | workdays<br>10am-6pm |  |
| Dedicated circuit              | DED         |                |                                  | Opt-in                                      |                   |                         |                      |                          |                          | ✓                                       |                                   |                      |  |
| Unmetered supplies             | UnMet       |                |                                  | Open  |                   |                         |                      | weekdays<br>7am-11pm     |                          |   | weekdays<br>11pm-7am,<br>weekends |                      |  |
| Non-residential non-demand ToU | LVM2R5D     |                |                                  | Closed <sup>11</sup>                        |                   | ✓                       |                      | weekdays<br>7am-11pm     |                          |   | weekdays<br>11pm-7am,<br>weekends |                      |  |
|                                | LVM2R7D     |                |                                  |   |                   | ✓                       |                      | 7am-11pm                 |                          |   | 11pm-7am                          |                      |  |
|                                | LVL2R       |                |                                  |   |                   | ✓                       |                      | weekdays<br>7am-11pm     |                          |   | weekdays<br>11pm-7am,<br>weekends |                      |  |

<sup>9</sup> All times local time unless otherwise stated.

<sup>10</sup> Non-residential demand tariffs summer period is December to March, Non-residential demand TOU tariffs summer period is November to March

<sup>11</sup> On 30 June 2021 all load moved to non-residential ToU

| Tariff type                | Tariff Code | Supply voltage | Energy threshold | Status               | Standing | Anytime energy | Peak energy          | Shoulder energy | Off-peak energy                   | Summer demand <sup>10</sup> | Non-summer demand    |
|----------------------------|-------------|----------------|------------------|----------------------|----------|----------------|----------------------|-----------------|-----------------------------------|-----------------------------|----------------------|
|                            |             |                |                  |                      | c/day    | c/kWh          | c/kWh                | c/kWh           | c/kWh                             | c/kW/day                    | c/kW/day             |
| Non-residential demand ToU | LVkWTOU     |                |                  | Closed <sup>12</sup> |          |                | workdays<br>7am-7pm  |                 | workdays<br>7pm-7am,<br>weekends  | workdays<br>3pm-6pm         |                      |
|                            | LVkWTOUH    |                |                  |                      |          |                | workdays<br>7am-7pm  |                 | workdays<br>7pm-7am,<br>weekends  | workdays<br>3pm-6pm         |                      |
|                            | TOU         |                |                  |                      |          |                | workdays<br>7am-11pm |                 | workdays<br>11pm-7am,<br>weekends | workdays<br>2pm-7pm         |                      |
| Non-residential demand     | LVMkWTOU    |                |                  |                      |          | ✓              |                      |                 |                                   | workdays<br>10am-6pm        | workdays<br>10am-6pm |

<sup>12</sup> On 30 June 2021 all load moved to non-residential demand

Figure 7 Large low voltage, high voltage and sub-transmission tariff classes<sup>13</sup>

| Tariff type       | Tariff Code | Supply voltage | Energy threshold                 | Status  | Standing | Anytime energy | Peak energy         | Shoulder energy | Off-peak energy   | Summer demand <sup>14</sup> | Rolling demand      |
|-------------------|-------------|----------------|----------------------------------|---------|----------|----------------|---------------------|-----------------|-------------------|-----------------------------|---------------------|
|                   |             |                |                                  |         | c/day    | c/kWh          | c/kWh               | c/kWh           | c/kWh             | c/kW/day                    | c/kW/day            |
| Low voltage large | LVkVATOU    | < 1 kV         | > 400 MWh pa<br>> 150 kVA demand | Default |          |                | workdays<br>8am-8pm |                 | Non peak<br>times | workdays<br>3pm-6pm         | workdays<br>8am-8pm |
| High voltage      | HVkVATOU    | 1 kV – 22 kV   | N/A                              | Default |          |                | workdays<br>8am-8pm |                 | Non peak<br>times | workdays<br>3pm-6pm         | workdays<br>8am-8pm |
| Subtransmission   | SUBTKVATOU  | > 22 kV        | N/A                              | Default |          |                | workdays<br>8am-8pm |                 | Non peak<br>times | workdays<br>3pm-6pm         | workdays<br>8am-8pm |

<sup>13</sup> All times local time

<sup>14</sup> Summer demand period is November to March

### 3.1 Residential

#### Dedicated circuit tariff rules

- open to single phase customers with a resistive controlled load of less than 30 amps for an approved storage hot water service and/or space heating
- approved storage hot water service includes twin and single element storage, electric boosted solar hot water storage, but not heat pump hot water storage or instantaneous hot water storage.
- customer must arrange for an electrician at their cost to separately wire the load to the meter board
- customer must have a single phase two element AMI Meter, with load contactor installed to support a primary tariff and the dedicated circuit tariff
- if a meter change is required, the customer must pay for the labour cost of installing a new meter
- typically switching times will occur for 7 hours within the 10pm to 7am time period, but these times may vary depending on localised demand management activities
- dedicated controlled load tariffs are charged at off-peak rates regardless of the specific switching times applied by the network
- dedicated circuits have a boost switch on the meter which if pressed allows electricity to be supplied to the dedicated circuit at the prevailing primary tariff rates
- existing dedicated circuit customers may have existing multiple meters and multiphase connections and will retain those arrangements despite being outside these current requirements
- existing slab heating customers have access to an off-peak switching between 1pm and 4pm, but this is not available to new customers.

### 3.2 Small and medium business tariffs

#### Demand

Chargeable demand is measured as the maximum half-hour kW demand between 10am and 6pm, local time, work days, resetting every month.

### 3.3 Large business tariffs

Large business cover the large low voltage, high voltage and sub-transmission tariff classes all of which have the same tariff structures.

The following table sets out how the tariff components are calculated.

Figure 8 Large business monthly tariff calculation

| Tariff components              | Calculation   |
|--------------------------------|---|
| Rolling demand charge          | cents per kVA per day x 12-month rolling kVA x days / 100 |
| Summer demand incentive charge | cents per kVA per day x summer incentive kVA x days / 100 |
| Peak usage charge              | cents per peak kWh x peak kWh in month / 100              |
| Off peak usage charge          | cents per off-peak kWh x off-peak kWh in month / 100      |

### **12-month rolling kVA**

Maximum kVA is calculated in the 30-minute interval with the maximum kW.

kVA 30-minute demand is calculated as:

$$kVA = \sqrt{kW^2 + kVAr^2}$$

Where

$kW = kWh$  in a 30-minute period x 2

$kVAr = kVArh$  in a 30-minute period x 2

Maximum 30-minute kW demand is measured between 8am and 8pm local time on workdays over the prior 12 months.

A minimum charging threshold of 150kVA for low voltage large customers, 1,150kVA for high voltage customers and 11,100kVA for sub-transmission customers.

If there is a full 12 month history of the customer's consumption data, the rolling 12-month maximum kVA demand will take effect immediately looking back 12 months.

Demand for greenfield sites will be measured from energisation date to the end date of the bill, until 12 months of history is available when it will revert to a 12-month rolling demand.

### **Summer incentive kVA**

Maximum kVA is calculated in the 30-minute interval with the maximum kW.

Maximum 30-minute kW demand over the billing month is measured between 3pm and 6pm local time on workdays.

### **Peak and off-peak usage**

Peak usage is kWh usage between 8am and 8pm local time on workdays.

Off-peak usage is kWh usage at all other times.

### **Demand exclusions**

The exclusion of temporary increases in demand from the 12-month rolling maximum demand charged to the customer at a supply point will be considered at our discretion. For example if there is a specific, short term need, such as commissioning a new plant. The customer must apply via their retailer in advance for a temporary increase in demand to be excluded from the supply point's 12-month rolling maximum demand charge.

### **Demand reset criteria**

A demand reset may be granted under the following circumstances:

- Install power factor correction (PFC) equipment and supply a copy of the Certificate of Electrical Safety (CES) to confirm the installation<sup>15</sup>. If granted, demand will be measured from the date of commissioning of the PFC equipment.

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<sup>15</sup> Customers installing power factor correction equipment will need to be cognisant of their obligations under the Victorian Electricity Distribution Code to keep harmonic distortion and power factor within prescribed levels. Power factor correction equipment has the potential to exacerbate harmonic distortion and can cause a leading power factor during times of low demand if the equipment is not designed properly.

- If PFC has not been installed, provide evidence of what the customer has changed on site to permanently alter the load/usage, for instance, removal of equipment. Evidence may be in the form of a CES detailing the works performed, technical information and/or photographic evidence to demonstrate the site changes.
- Customers that have moved into a premise will automatically continue to have their maximum demand charge based on the 12-month rolling maximum demand. A customer will need to lodge an application for their demand to be measured from the date they occupied the premises.

#### **Criteria to move away from large business tariff**

We will require confirmation that the load for the connection point is/has been limited to 200 amps per phase to ensure the site cannot exceed a demand greater than 150 kW. The load can be limited by a supply capacity control device (SCCD) or other types of load limiting devices. If an SCCD exists, an electrician may be required to attend to limit the amps. We will require a copy of the CES as evidence of the works completed on site.

### **3.4 Exemptions from a network tariff**

Customers with generation facilities or batteries will be exempt from a network tariff if the customer has a signed a contract with United Energy which exempts the customer from a network tariff. United Energy would only enter into such a contract if:

- there is no other load at the site other than load associated with the generation facility or battery
- the contract provides United Energy with assurance that the generator or battery will be operated to the net benefit of United Energy's customers.

Any generation facilities or batteries owned by United Energy and installed to manage the distribution network will be exempt from a network tariff.



## 4 Approach to setting tariffs

### 4.1 Setting tariffs

Our residential and small business tariffs rates will be set to create an incentive for customers to select the more cost-reflective tariffs.

#### Residential

We will gradually reduce the default ToU rates relative to the single-rate tariff to provide an incentive for most customers to move to the more cost-reflective tariff. We will aim to have 80% of residential customers better off on the default ToU tariff relative to the single-rate tariff by 2026.

The following table illustrates that only one per cent per year relative reduction in the default ToU rates would result in about 80% of customers being better off by 2026.

Table 1 Proportion of residential customers better off on the default ToU tariff

| TOU reduction relative to revenue neutral | Proportion of customers better off on ToU |
|---|---|
| 0%  | 61%                                       |
| 1%  | 66%                                       |
| 2%  | 70%                                       |
| 3%  | 74%                                       |
| 4%  | 78%                                       |
| 5%  | 81%                                       |

United Energy's residential network standing charges are one of the lowest amongst Australian distributors, and therefore standing charges will be increased from \$29-58 per annum in 2020 (excluding the demand tariff which has no standing charge) to \$80 per annum.

The minimum demand of 1.5 kW for the residential demand tariff will be removed and replaced with the \$80 standing charge.

#### Small and medium business

We will follow a similar approach for the default ToU tariff and the existing demand tariff. Customers will on average be better off on the default ToU and demand tariffs relative to the single rate tariff.

United Energy's small and medium business network standing charges are one of the lowest amongst Australian distributors, and therefore standing charges will be increased from \$48-98 per annum in 2020 (excluding the demand tariff which has no standing charge) to \$120 per annum.

The minimum demand of 1.5 kW for the small business demand tariff will be removed and replaced with the \$120 standing charge.

## 4.2 Compliance with pricing principles

Our tariffs must comply with the following pricing principles:

1. for each tariff class, the revenue expected to be recovered must lie on or between stand-alone and avoidable cost
2. each tariff must take into account the long run marginal cost of providing the service
3. the revenue expected to be recovered from each tariff must reflect the total efficient costs of serving customers and the total revenue should be in accordance with the relevant distribution determination
4. we must consider the impact on retail customers of changes in tariffs from the previous regulatory year
5. our tariffs must be reasonably capable of being understood by customers
6. our tariffs must comply with the Rules and all applicable regulatory instruments.

Each principle is covered below.

### **Revenue lies between stand-alone and avoidable costs**

We must ensure that the revenue recovered for each tariff class lies between:

- an upper bound, representing the stand-alone cost of serving customers who belong to that class
- a lower bound, representing the avoidable cost of not serving those customers.

The stand-alone and avoidable cost methodologies are used to calculate the revenues for each standard control service tariff class associated with each cost methodology. These costs are compared with the weighted average revenue derived from our proposed tariffs.

These two categories of cost may be defined as follows:

- the stand-alone cost comprises of both the capital and operating costs of service provision. The stand-alone network capital cost for each tariff class was derived from an estimate of the proportions of the cost of providing network infrastructure that would need to remain in place to service the load in each tariff class if the other tariff classes were no longer required to be supplied. The stand-alone operating cost for a tariff class has been estimated as the total of all operating cost less the avoidable operating costs of serving all the other tariff classes; and
- the avoidable cost for a tariff class is defined as the cost that would be avoided should the distribution business no longer serve that specific tariff class (whilst all other tariff classes remain supplied). If a tariff class were to be charged below the avoidable cost, it would be economically efficient for the business to stop supplying that tariff class as the associated costs would exceed the revenue obtained from the customer. Further, where avoidable costs are higher than revenue recovered, the associated tariff levels may also result in inefficient levels of consumption, which therefore provides a rationale for having avoidable costs as a lower bound.

Stand-alone and avoidable costs are calculated in attachment UE ATT028 Stand alone and avoidable cost model – Jan2020 – Public.

The following table demonstrates that revenue falls between avoidable and stand-alone costs.

Table 2 2021/22 revenue compared with avoidable and stand-alone costs (\$000 June-21)

| Tariff class              | Avoidable cost | 2021/22 revenue | Stand-alone cost |
|---------------------------|----------------|-----------------|------------------|
| Residential               | 67,992         | 239,588         | 351,708          |
| Small and medium business | 20,398         | 79,434          | 175,854          |
| Large low voltage         | 21,248         | 89,002          | 219,817          |
| High voltage              | 5,099          | 19,998          | 131,890          |
| Sub-transmission          | 0              | 160             | 89,947           |

### Long run marginal cost has been taken into account

Appendix 2 describes how LRMC was calculated and provides the calculated values.

LRMC has been taken into account in our tariff structures by setting our peak usage and demand periods at the times when network peaks, at the various voltage levels, are expected to occur in the long run.

We have chosen not to deterministically calculate peak energy or demand prices from LRMC because:

- LRMC cannot be calculated with any degree of precision due to the lack of accurate long term forecasts of demand and investment at all levels in the network
- the calculated LRMC is sensitive to methodology and input assumptions. See Table 3 and Table 4 in Appendix 2 which present LRMC calculated using the marginal increment cost and long run incremental cost methods. The average LRMC across the network differs by a factor of 2 (low voltage feeder) to 11 (zone substation) between the two methodologies
- LRMC is high in 4 zone substation supply areas, and low in the remaining 42 zone substation supply areas. Since there is strong community and political resistance to differentiated network pricing by location, it is not practical to reflect the local LRMC deterministically in network tariffs
- there is a trade-off between the strength of the peak price signal – usage or demand - and customer impacts. When consulting on the customer impacts of our proposed new ToU tariff we used a peak/off-peak ratio of 2.5 for the residential tariff and 4.5 for the small business tariff and intend to apply these ratios when setting the new ToU prices.

### Efficient costs of providing the services

The AER final determination sets out the efficient revenue that United Energy can recover, based on efficient costs, and price controls which ensure that total revenue is in accordance with the relevant distribution determination.

### Impact on retail customers

The customer impact principle has driven much of the work and outcomes described in the TSS reasons document.

In particular, the simple new residential and small business ToU tariff design and assignment approach (including ability to choose tariffs alternative tariffs) are a result of the significant customer and stakeholder engagement we have undertaken and is targeted at ensuring we make progress on tariff reform in a way that is acceptable to stakeholders.

**Tariffs reasonably capable of being understood by customers**

Our selection of the new residential and small business ToU tariff design was strongly motivated by the desire of customers and stakeholders for a simple easily understood tariff.

**Tariffs must comply with the Rules and all applicable regulatory instruments**

Legislation made by the Victorian Government—by way of an ‘order in council’—sets out certain requirements for network tariffs that expire on 31 December 2020. Our TSS has been developed on the basis that this will expire. We understand that the Victorian Government will be reviewing the order in council during 2020 and we will update our TSS to comply with those requirements as part of our revised proposal.

## Appendix 1: Glossary

| Term                 | Definition  |
|----------------------|---|
| AER                  | Australian Energy Regulator   |
| AEST                 | Australian Eastern Standard Time is 10 hours ahead of UTC   |
| AMI                  | Advanced Metering Infrastructure  |
| Business customer    | Customer whose usage is predominately for business purposes   |
| CES                  | Certificate of Electrical Safety  |
| Controlled load      | The DNSP controls the hours in which the supply is made available   |
| Flexible Pricing     | Flexible pricing means different rates for electricity at different times of the day as defined by the Victorian Governments policy on ToU pricing  |
| kVA                  | Kilovolt amperes, units of instantaneous total electrical power demand  |
| kVAr                 | Kilovolt amperes (reactive), unit of instantaneous reactive electrical power demand   |
| kVArh                | Kilovolt amperes hour (reactive), unit of reactive electrical power usage   |
| kW                   | Kilowatt, unit of instantaneous real electrical power demand  |
| kWh                  | Kilowatt hour, units of real electrical energy consumption  |
| Local time           | Daylight saving time in accordance with the Victorian Government's requirements   |
| LV                   | Low voltage which is 230 V single phase or 415 V three phase  |
| LRMC                 | Long run marginal cost  |
| MIC                  | Marginal incremental cost   |
| NUoS                 | Network use of system   |
| PFC                  | Power factor correction   |
| REC                  | Registered Electrical Contractor  |
| Residential customer | Customer whose usage is predominately for residential purposes  |
| Rules                | National Electricity Rules  |
| SCCD                 | Supply capacity control device  |
| ToU                  | Time of use   |
| TSS                  | Tariff structure statement  |
| Unmetered supply     | A connection to the distribution system which is not equipped with a meter and has estimated consumption. Connections to public lights, phone boxes, traffic lights and the like are not normally metered |

## Appendix 2: Long Run Marginal Cost

### Approach

Long run marginal cost (LRMC) is a measure of the change in the forward looking costs as output increases when all factors of production including plant and equipment are variable. The LRMC for electricity distribution will usually relate to the annualised cost of augmenting capacity (at a particular voltage, location, and time) per unit of additional capacity provided. LRMC can also be the annualised avoided replacement cost per unit of capacity reduction.

We calculated LRMC at a granular level in our network to observe how LRMC cost differs across our network, and to see if LRMC could be used as a basis for the rebate we would be prepared to pay for non-network solutions to relieve localised network constraints.

We engaged a consultant, ENEA, to undertake LRMC calculations for our network. ENEA was instructed to:

- calculate LRMC for each zone substation supply area
- calculate LRMC for each level of the network
- include augmentation and replacement cost in LRMC
- use our available planning information
- apply our planning criteria to identify when augmentation is triggered.

ENEA selected the marginal incremental cost (MIC) approach to calculating long run marginal cost because it can cater for network areas with decreasing/flat demand and can be adapted to accommodate replacement costs.

Since the low voltage network is planned in the short term only, there was no planning data for the low voltage network. As a consequence, the average historic marginal cost of reinforcement of the low voltage network was used as a proxy for the low voltage LRMC in all zone substation supply areas. ENEA have pointed out that marginal cost of reinforcement is representative of new connections only, and not of existing low voltage customers who have a stable or decreasing maximum demand.

A number of other 'average' assumptions were made such as incremental O&M costs and diversity factors at each voltage level.

During the engagement, ENEA was engaged by another distributor to calculate LRMC using the long run incremental cost (LRIC) approach.

ENEA gave us two sets of results: one using the MIC approach and one using the LRIC approach.

Due to the number and complexity of calculations, they were performed in Python (as opposed to Excel).

ENEA's report is attached as UE ATT025 - ENEA - Long run marginal cost report - Mar2019 - Public.

### Results

The following table summarises the calculated LRMC.

Table 3 LRMC summary (\$ per kVA per year)

|             | Low voltage feeder | Low voltage transformer | High voltage feeder | Zone substation | Sub-transmission feeder |
|-------------|--------------------|-------------------------|---------------------|-----------------|-------------------------|
| <b>MIC</b>  |                    |                         |                     |                 |                         |
| Average     | 23                 | 34                      | 20                  | 8               | 4                       |
| Low         | 20                 | 27                      | 12                  | 0               | 0                       |
| High        | 40                 | 81                      | 72                  | 61              | 15                      |
| <b>LRIC</b> |                    |                         |                     |                 |                         |
| Average     | 46                 | 103                     | 99                  | 91              | 43                      |
| Low         | 16                 | 21                      | 10                  | 0               | 0                       |
| High        | 250                | 665                     | 718                 | 725             | 182                     |

The following tables present calculated LRMC for each zone substation and network level for MIC and LRIC.

Table 4 MIC LRMC (\$ per kVA per year)

| Zone substation | Low voltage feeder (\$/kVA/year) | Low voltage transformer (\$/kVA/year) | High voltage feeder (\$/kVA/year) | Zone substation (\$/kVA/year) | Subtransmission feeder (\$/kVA/year) |
|-----------------|----------------------------------|---------------------------------------|-----------------------------------|-------------------------------|--------------------------------------|
| BH              | 24                               | 38                                    | 25                                | 13                            | 15                                   |
| BR              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| BT              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| BU              | 21                               | 27                                    | 13                                | 0                             | 0                                    |
| BW              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| CDA             | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| CFD             | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| CM              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| CRM             | 21                               | 29                                    | 14                                | 2                             | 2                                    |
| DC              | 30                               | 55                                    | 42                                | 31                            | 0                                    |
| DMA             | 22                               | 30                                    | 16                                | 4                             | 1                                    |
| DN              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| DSH             | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| DVY             | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| EB              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| EL              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| EM              | 34                               | 64                                    | 53                                | 42                            | 0                                    |
| EW              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| FSH             | 21                               | 28                                    | 13                                | 1                             | 1                                    |
| FTN             | 21                               | 29                                    | 14                                | 2                             | 2                                    |
| GW              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| HGS             | 21                               | 28                                    | 13                                | 1                             | 1                                    |
| HT              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| K               | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| LD              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| LWN             | 24                               | 38                                    | 24                                | 12                            | 2                                    |
| M               | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| MC              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| MGE             | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| MR              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| MTN             | 40                               | 80                                    | 70                                | 60                            | 1                                    |
| NB              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| NO              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| NP              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| NW              | 24                               | 38                                    | 25                                | 13                            | 15                                   |
| OAK             | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| OE              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| OR              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| RBD             | 21                               | 28                                    | 13                                | 1                             | 1                                    |
| SH              | 20                               | 27                                    | 12                                | 0                             | 0                                    |
| SR              | 23                               | 34                                    | 20                                | 8                             | 9                                    |
| SS              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| STO             | 21                               | 28                                    | 13                                | 1                             | 1                                    |
| SV              | 22                               | 31                                    | 17                                | 5                             | 6                                    |
| SVW             | 40                               | 81                                    | 72                                | 61                            | 6                                    |
| WD              | 21                               | 27                                    | 13                                | 0                             | 0                                    |
| <b>Average</b>  | <b>23</b>                        | <b>34</b>                             | <b>20</b>                         | <b>8</b>                      | <b>4</b>                             |



Table 5 LRIC LRMC (\$ per kVA per year)

| Zone substation | Low voltage feeder (\$/kVA/year) | Low voltage transformer (\$/kVA/year) | High voltage feeder (\$/kVA/year) | Zone substation (\$/kVA/year) | Subtransmission feeder (\$/kVA/year) |
|-----------------|----------------------------------|---------------------------------------|-----------------------------------|-------------------------------|--------------------------------------|
| BH              | 67                               | 160                                   | 163                               | 157                           | 182                                  |
| BR              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| BT              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| BU              | 17                               | 25                                    | 13                                | 4                             | 4                                    |
| BW              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| CDA             | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| CFD             | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| CM              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| CRM             | 24                               | 43                                    | 34                                | 25                            | 29                                   |
| DC              | 121                              | 312                                   | 329                               | 327                           | 4                                    |
| DMA             | 30                               | 61                                    | 53                                | 44                            | 8                                    |
| DN              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| DSH             | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| DVY             | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| EB              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| EL              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| EM              | 147                              | 381                                   | 405                               | 405                           | 0                                    |
| EW              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| FSH             | 18                               | 27                                    | 16                                | 7                             | 8                                    |
| FTN             | 24                               | 43                                    | 34                                | 25                            | 29                                   |
| GW              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| HGS             | 18                               | 27                                    | 16                                | 7                             | 8                                    |
| HT              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| K               | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| LD              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| LWN             | 63                               | 149                                   | 150                               | 144                           | 29                                   |
| M               | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| MC              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| MGE             | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| MR              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| MTN             | 211                              | 559                                   | 601                               | 604                           | 8                                    |
| NB              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| NO              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| NP              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| NW              | 67                               | 160                                   | 163                               | 157                           | 182                                  |
| OAK             | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| OE              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| OR              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| RBD             | 18                               | 27                                    | 16                                | 7                             | 8                                    |
| SH              | 16                               | 21                                    | 10                                | 0                             | 0                                    |
| SR              | 45                               | 100                                   | 96                                | 89                            | 103                                  |
| SS              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| STO             | 18                               | 27                                    | 16                                | 7                             | 8                                    |
| SV              | 33                               | 68                                    | 61                                | 53                            | 62                                   |
| SVW             | 250                              | 665                                   | 718                               | 725                           | 62                                   |
| WD              | 17                               | 25                                    | 13                                | 4                             | 4                                    |
| <b>Average</b>  | <b>46</b>                        | <b>103</b>                            | <b>99</b>                         | <b>91</b>                     | <b>43</b>                            |

## Appendix 3: Indicative prices

Indicative prices for 2021-2026 regulatory control period for the following components of network charges are provided in the attachment, UE ATT032 – United Energy, Indicative tariffs – Jan2020 - Public:

- Distribution use of system charges
- Transmission use of system charges
- Jurisdictional scheme charges
- Network use of system charges

They will be updated annually to reflect the latest forecasts, but will remain indicative only because the actual prices that will be charged will depend on:

- The indicative X factors that the AER will determine for us for the 2021-2026 regulatory control period, and that are updated annually for rate of return and any contingent projects
- actual energy consumption
  - if energy consumption falls below our forecast, prices would need to increase more than indicated or
  - if energy consumption rises above our forecast, prices would decline below the estimates indicated
- the impact of incentive schemes
- the impact of 'unders and overs' amounts adjusted for the time value of money due to variances between actual and forecast volumes
- the impact of any pass-through amounts
- amount of transmission, avoided transmission, and inter-distributor charges which are outside our control
- jurisdictional scheme costs which are beyond our control.

## Appendix 4: Alternative control services

Alternative control services are customer specific or customer requested services, and so the full cost of the service is attributed to that particular customer.

The following table summarises categories of alternative control services.

Table 6 Categories of alternative control services

| Service category                       | Form of price control | Examples of services   |
|--|-----------------------|--|
| Network ancillary services – fee based | Price cap             | Re-energise (fuse insert), De-energise at point of attachment (pole/pit/premise) etc.                    |
| Network ancillary services – quoted    | Price cap             | Field worker (one person), senior engineer, etc.   |
| Basic connection services              | Price cap             | Basic connection services as defined in United Energy Connection policy.                                 |
| Public lighting services               | Price cap             | Operation of public lighting assets, maintenance, repair and replacement of public lighting assets, etc. |
| Metering services                      | Revenue cap           | Meter provision, meter maintenance, meter reading and data services, meter exit fees, etc.               |

These services will be charged in accordance with the AER final determination.

## Appendix 5: Compliance checklist

This section sets out the Rule requirements relevant to this TSS and the section in which those requirements have been met.

| Rule Provision   | Requirement   | Relevant section                              |
|--|---|---|
| <b>Part E: Regulatory proposal and proposed tariff structure statement</b> |   |   |
| <b>6.8.2</b>   | <b>Submission of tariff structure statement</b>   |   |
| 6.8.2(a)   | A <i>Distribution Network Service Provider</i> must, whenever required to do so under paragraph (b), submit to the AER a <i>regulatory proposal</i> and a <i>proposed tariff structure statement</i> related to the <i>distribution services</i> provided by means of, or in connection with, the <i>Distribution Network Service Provider's distribution system</i> .  | Noted   |
| 6.8.2(b)   | A regulatory proposal, a proposed tariff structure statement and, if required under paragraph (a1), an exemption application must be submitted:<br>(1) at least 17 months before the expiry of a distribution determination that applies to the Distribution Network Service Provider; or<br>(2) if no distribution determination applies to the Distribution Network Service Provider, within 3 months after being required to do so by the AER. | This document                                 |
| 6.8.2(c)   | A proposed <i>tariff structure statement</i> must be accompanied by information that contains a description (with supporting materials) of how the proposed <i>tariff structure statement</i> complies with the <i>pricing principles for direct control services</i> .   | 4.2 Compliance with pricing principles        |
| 6.8.2(c1a)   | The proposed <i>tariff structure statement</i> must be accompanied by an overview paper which includes a description of how the <i>Distribution Network Service Provider</i> has engaged with <i>retail customers</i> and <i>retailers</i> in developing the proposed <i>tariff structure statement</i> and has sought to address any relevant concerns identified as a result of that engagement   | Explanatory document                          |
| 6.8.2(d1)  | The <i>tariff structure statement</i> must be accompanied by an <i>indicative pricing schedule</i> .  | Indicative pricing schedule – Appendix 3      |
| 6.8.2(d2)  | The <i>tariff structure statement</i> must comply with the <i>pricing principles for direct control services</i> .  | 4.2 Compliance with pricing principles        |
| 6.8.2(e)   | If more than one <i>distribution system</i> is owned, controlled or operated by a <i>Distribution Network Service Provider</i> , then, unless the AER otherwise determines, a separate <i>tariff structure statement</i> are to be submitted for each <i>distribution system</i> .  | Noted   |
| 6.8.2(f)   | If, at the commencement of this Chapter, different parts of the same <i>distribution system</i> were separately regulated, then, unless the AER otherwise determines, a separate <i>tariff structure statement</i> are to be submitted for each part as if it were a separate <i>distribution system</i> .  | Not applicable                                |
| <b>6.18.1A</b>   | <b>Tariff Structure Statement</b>   |   |
| 6.18.1A(a)(1)  | The <i>tariff structure statement</i> must include the <i>tariff classes</i> into which <i>retail customers</i> for <i>direct control services</i> will be divided during the relevant <i>regulatory control period</i> .   | 2.1 Tariff classes                            |
| 6.18.1A(a)(2)  | The <i>tariff structure statement</i> must include the policies and procedures the <i>Distribution Network Service Provider</i> will apply for assigning <i>retail customers</i> to tariffs or reassigning <i>retail customers</i> from one tariff to another (including any applicable restrictions).  | 2.5 Allocation of customers to tariff classes |

|               |   |   |
|---------------|---|---|
| 6.18.1A(a)(3) | The <i>tariff structure statement</i> must include the structures for each proposed tariff.   | 3 Structure and charging parameters                                     |
| 6.18.1A(a)(4) | The <i>tariff structure statement</i> must include the <i>charging parameters</i> for each proposed tariff.   | 3 Structure and charging parameters                                     |
| 6.18.1A(a)(5) | The <i>tariff structure statement</i> must include a description of the approach that the <i>Distribution Network Service Provider</i> will take in setting each tariff in each <i>pricing proposal</i> during the relevant <i>regulatory control period</i> in accordance with clause 6.18.5 (pricing principles).   | 4 Approach to setting tariffs   |
| 6.18.1A(b)    | The <i>tariff structure statement</i> must comply with the <i>pricing principles for direct control services</i> .  | 4.2 Compliance with pricing principles                                  |
| 6.18.1A(e)    | A <i>tariff structure statement</i> must be accompanied by an <i>indicative pricing schedule</i> which sets out, for each tariff for each <i>regulatory year</i> of the <i>regulatory control period</i> , the indicative price levels determined in accordance with the <i>tariff structure statement</i> .  | Appendix 3 Indicative pricing schedule                                  |
| <b>6.18.3</b> | <b>Tariff Classes</b>   |   |
| 6.18.3(b)     | Each customer for <i>direct control services</i> must be a member of 1 or more <i>tariff classes</i> .  | 2.1 Tariff classes  |
| 6.18.3(c)     | Separate <i>tariff classes</i> must be constituted for <i>retail customers</i> to whom <i>standard control services</i> are supplied and <i>retail customers</i> to whom <i>alternative control services</i> are supplied (but a customer for both <i>standard control services</i> and <i>alternative control services</i> may be a member of 2 or more <i>tariff classes</i> ).   | 2.1 Tariff classes  |
| 6.18.3(d)     | A <i>tariff class</i> must be constituted with regard to:<br>1. the need to group <i>retail customers</i> together on an economically efficient basis; and<br>2. the need to avoid unnecessary transaction costs.   | 2.1 Tariff classes  |
| <b>6.18.4</b> | <b>Principles governing assignment or re-assignment of retail customers to tariff classes and assessment and review of basis of charging</b>  |   |
| 6.18.4(a)     | In formulating provisions of a distribution determination governing the assignment of <i>retail customers</i> to <i>tariff classes</i> or the re-assignment of <i>retail customers</i> from one <i>tariff class</i> to another, the AER must have regard to the following principles:   | Noted   |
| 6.18.4(a)(1)  | <i>retail customers</i> should be assigned to <i>tariff classes</i> on the basis of one or more of the following factors:<br>the nature and extent of their usage;<br>the nature of their connection to the network;<br>whether remotely-read interval metering or other similar metering technology has been installed at the retail customer's premises as a result of a regulatory obligation or requirement;  | 2.1 Tariff classes  |
| 6.18.4(a)(2)  | retail customers with a similar connection and usage profile should be treated on an equal basis;   | 2.1 Tariff classes  |
| 6.18.4(a)(3)  | however, retail customers with micro-generation facilities should be treated no less favourably than retail customers without such facilities but with a similar load profile;  | 2.1 Tariff classes  |
| 6.18.4(a)(4)  | a Distribution Network Service Provider's decision to assign a customer to a particular tariff class, or to re-assign a customer from one tariff class to another should be subject to an effective system of assessment and review.<br><b>Note:</b> If (for example) a customer is assigned (or reassigned) to a tariff class on the basis of the customer's actual or assumed maximum demand, the system of assessment and review should allow for the reassignment of a customer who demonstrates a reduction or increase in maximum demand to | 2.1 Tariff classes and<br>2.5 Allocation of customers to tariff classes |

|           |   |  |
|-----------|---|--|
|           | a tariff class that is more appropriate to the customer's load profile.   |  |
| 6.18.4(b) | If the <i>charging parameters</i> for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution determination must contain provisions for an effective system of assessment and review of the basis on which a customer is charged.  | 3 Structure and charging parameters  |
|           | <b>Network Pricing Objective</b>  |  |
| 6.18.5(a) | The <i>network pricing objective</i> is that the tariffs that a <i>Distribution Network Service Provider</i> charges in respect of its provision of <i>direct control services</i> to a <i>retail customer</i> should reflect the <i>Distribution Network Service Provider's</i> efficient costs of providing those services to the <i>retail customer</i> .  | 4 Approach to setting tariffs  |
|           | <b>Application of the Pricing Principles</b>  |  |
| 6.18.5(b) | Subject to paragraph (c), a <i>DNSP's</i> tariffs must comply with the pricing principles set out in paragraphs (e) to (j).   | 4.2 Compliance with pricing principles                                       |
| 6.18.5(c) | A <i>Distribution Network Service Provider's</i> tariffs may vary from tariffs which would result from complying with the pricing principles set out in paragraphs (e) to (g) only: to the extent permitted under paragraph (h); and to the extent necessary to give effect to the pricing principles set out in paragraphs (i) to (j).   | 4.2 Compliance with pricing principles                                       |
| 6.18.5(d) | A <i>Distribution Network Service Provider</i> must comply with paragraph (b) in a manner that will contribute to the achievement of the <i>network pricing objective</i> .   | 4.2 Compliance with pricing principles                                       |
|           | <b>Pricing Principles</b>   |  |
| 6.18.5(e) | For each tariff class, the revenue expected to be recovered must lie on or between: <ol style="list-style-type: none"> <li>1. an upper bound representing the stand alone cost of serving the retail customers who belong to that class; and</li> <li>2. a lower bound representing the avoidable cost of not serving those retail customers.</li> </ol>  | 4.2 Compliance with pricing principles and Appendix 2 Long Run Marginal Cost |
| 6.18.5(f) | Each tariff must be based on the <i>long run marginal cost</i> of providing the service to which it relates to the retail customers assigned to that tariff with the method of calculating such cost and the manner in which that method is applied to be determined having regard to: <ol style="list-style-type: none"> <li>1. the costs and benefits associated with calculating, implementing and applying that method as proposed;</li> <li>2. the additional costs likely to be associated with meeting demand from retail customers that are assigned to that tariff at times of greatest utilisation of the relevant part of the distribution network; and</li> <li>3. the location of retail customers that are assigned to that tariff and the extent to which costs vary between different locations in the distribution network.</li> </ol> | Appendix 2 Long Run Marginal Cost  |
| 6.18.5(g) | The revenue expected to be recovered from each tariff must: <ol style="list-style-type: none"> <li>1. reflect the <i>Distribution Network Service Provider's</i> total efficient costs of serving the retail customers that are assigned to that tariff;</li> <li>2. when summed with the revenue expected to be received from all other tariffs, permit the <i>Distribution Network Service Provider</i> to recover the expected revenue for the relevant services in accordance with the applicable distribution determination for the <i>Distribution Network Service Provider</i>; and</li> <li>3. comply with sub-paragraphs (1) and (2) in a way that</li> </ol>  | 4.2 Compliance with pricing principles and Appendix 2 Long Run Marginal Cost |

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|           | minimises distortions to the price signals for efficient usage that would result from tariffs that comply with the pricing principle set out in paragraph (f).  |  |
| 6.18.5(h) | <p>A Distribution Network Service Provider must consider the impact on retail customers of changes in tariffs from the previous regulatory year and may vary tariffs from those that comply with paragraphs (e) to (g) to the extent the Distribution Network Service Provider considers reasonably necessary having regard to:</p> <ol style="list-style-type: none"> <li>1. the desirability for tariffs to comply with the pricing principles referred to in paragraphs (f) and (g), albeit after a reasonable period of transition (which may extend over more than one regulatory control period);</li> <li>2. the extent to which retail customers can choose the tariff to which they are assigned; and</li> <li>3. the extent to which retail customers are able to mitigate the impact of changes in tariffs through their usage decisions.</li> </ol> | <p>2 Tariff classes and assignment policies and<br/>4.2 Compliance with pricing principles</p> |
| 6.18.5(i) | <p>The structure of each tariff must be reasonably capable of being understood by retail customers that are assigned to that tariff, having regard to:</p> <ol style="list-style-type: none"> <li>1. the type and nature of those retail customers; and</li> <li>2. the information provided to, and the consultation undertaken with, those retail customers.</li> </ol>   | 3 Structure and charging parameters  |
| 6.18.5(j) | A tariff must comply with the <i>Rules</i> and all <i>applicable regulatory instruments</i> .   | Noted  |