



Draft Decision

United Energy Tariff Structure Statement

February 2016

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1 AER draft decision

The AER's draft determination is that United Energy's proposed Tariff Structure Statement, submitted in September 2015, should not be approved at this time.

United Energy developed its proposed Tariff Structure Statement under the distribution pricing rules set out in Part I of the National Electricity Rules (Rules), which include the pricing principles prescribed in clause 6.18.5 (pricing principles).

The Victorian Government has the authority to amend the Rules and add further regulatory requirements to which a Tariff Structure Statement must comply. Subsequent to United Energy's submission of its Tariff Structure Statement to the AER, the Victorian Government advised the AER of changes it intends to make to the operation of the pricing principles that have a direct bearing on the relevant regulatory requirements.

On 21 December 2015 we received notification from the Victorian Minister for Energy & Resources of her intention to require Victorian distributors to implement changes to distribution network pricing arrangements through an opt-in approach. We understand that the Victorian Department of Economic Development, Jobs, Transport and Resources is currently consulting with stakeholders on how the *Advanced Metering Infrastructure (AMI Tariffs) Order in Council 2013* (AMI Tariff Order)¹ may be varied to best give effect to the Minister's intention.

We understand the proposed changes to the AMI Tariff Order will insert an additional pricing principle into clause 6.18.5 of the Rules, which will have the practical effect of requiring that cost reflective tariffs be introduced in Victoria on an opt-in basis only. This will mean that distributors and retailers cannot transfer customers onto a cost reflective tariff structure without the customer's explicit informed consent.

Since United Energy's proposed Tariff Structure Statement, submitted in September 2015, does not contemplate the additional pricing principle referred to above, our draft determination is not to approve the proposed Tariff Structure Statement to give United Energy an opportunity to address this additional jurisdictional requirement in its revised Tariff Structure Statement proposal.

We anticipate that the Victorian Government will publish amendments to the AMI Tariff Order before the statutory date for the final decision on United Energy's proposed Tariff Structure Statement of 29 July 2016. United Energy is presently engaging with its stakeholders and customers to explain how it intends to amend its September 2015 Tariff Structure Statement so as to comply with the Victorian Government's applicable regulatory instrument.

We will in turn consult with stakeholders on the amended Tariff Structure Statement before making the final determination in July 2016.

¹ This is the applicable regulatory instrument per NER cl. 6.18.5(j).

2 Tariff Structure Statement Rule requirements

Why Tariff Structure Statements?

How Distribution Network Service Providers (distributors), such as United Energy, convert their revenues into tariffs is governed by a new set of arrangements in the National Electricity Rules (the Rules). The Australian Energy Markets Commission (AEMC) made a series of changes to the pricing rules in November 2014.² These originated from its earlier Power of Choice review recommendations that were actioned into rule change proposals from governments. Broadly, these new rules have three aims, namely to provide:

- better signals of the cost drivers of distribution networks
- explicit consideration of tariff change impacts
- transparency and greater certainty on tariff strategies for a regulatory period.

A new network pricing objective will be the focus for distributors when developing their network prices. This objective is that:³

the tariffs that a distributor charges for provision of direct control services to a retail customer should reflect the distributors' efficient costs of providing those services to the retail customer

A Tariff Structure Statement is part of the new tariff arrangements. It should show how a distributor applied the Rules' pricing principles⁴ to develop its price structures and indicative price levels for the coming five year regulatory period. A distributor must submit its proposed Tariff Structure Statement to us for assessment.

Generally, a distributor will be required to submit its proposed Tariff Structure Statement when submitting its regulatory proposal.⁵ The Rules permitted the Victorian distributors to submit later than their regulatory proposals this time because of the timing of the rule changes.⁶

Tariff Structure Statement requirements

There are two separate sets of requirements for Tariff Structure Statements. First, the Rules set out a number of elements that an approved Tariff Structure Statement must contain. Second, a Tariff Structure Statement must also reflect the distribution pricing principles.

What must a Tariff Structure Statement contain?

² AEMC, *Rule determination—National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*, November 2014.

³ NER, cl. 6.18.5(a).

⁴ This is a reference to the Rules' *pricing principles for direct control services*, alternatively described in this paper as the "distribution pricing principles"; NER, cl. 6.18.5(e)–(j).

⁵ NER, cl. 6.8.2(a).

⁶ NER, cl. 11.76.2(a).

The Rules require a Tariff Structure Statement to include:⁷

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- structures for each proposed tariff
- charging parameters for each proposed tariff
- a description of the approach that the distributor will take in setting each tariff in each pricing proposal.

A Tariff Structure Statement must be accompanied by an indicative pricing schedule.⁸

What must a Tariff Structure Statement comply with?

A Tariff Structure Statement must comply with the distribution pricing principles, which may be summarised as:

- for each tariff class, expected revenue to be recovered from customers must be between the stand alone cost of serving those customers and the avoidable cost of not serving those customers⁹
- each tariff must be based on the long run marginal cost of serving those customers, with the method of calculation and its application determined with regard to the costs and benefits and customer location¹⁰
- expected revenue from each tariff must reflect the distributor's efficient costs, permit the distributor to recover revenue consistent with the applicable distribution determination and minimise distortions to efficient price signals¹¹
- distributors must consider the impact on customers of tariff changes and may vary from efficient tariffs, having regard to:¹²
 - the desirability for efficient tariffs and the need for a reasonable transition period (that may extend over one or more regulatory periods)
 - the extent of customer choice of tariffs
 - the extent to which customers can mitigate tariff impacts by their consumption
- tariff structures must be understandable by customers¹³
- tariffs must otherwise comply with the Rules and all *applicable regulatory requirements*.¹⁴

⁷ NER, cl. 6.18.1A(a).

⁸ NER, cl. 6.8.2(d1).

⁹ NER, cl. 6.18.5(e).

¹⁰ NER, cl. 6.18.5(f).

¹¹ NER, cl. 6.18.5(g).

¹² NER, cl.6.18.5(h).

¹³ NER, cl. 6.18.5(i).

¹⁴ NER, cl. 6.18.5(j); this requirement includes jurisdictional requirements.

What happens when a distributor submits a proposed Tariff Structure Statement?

The Rules require us to publish a proposed Tariff Structure Statement and invite submissions.¹⁵ We then assess a proposed Tariff Structure Statement for its compliance with the distribution pricing principles. Taking into account submissions and any supporting information submitted by the distributor, we will publish a draft determination on the proposed Tariff Structure Statement.¹⁶ This will set out our reasons for making the determination.¹⁷ We will call for submissions on our draft determination.¹⁸

Our role is largely one of assessing for compliance. We must approve a proposed Tariff Structure Statement unless we consider it will not comply with the distribution pricing principles or other relevant requirements of the Rules.¹⁹

What happens if a proposed Tariff Structure Statement is not approved?

A distributor may submit a revised Tariff Structure Statement no later than 45 business days after we publish our draft determination.²⁰ Under the Rules, a distributor may only make revisions to its Tariff Structure Statement to address matters raised by our draft determination.²¹ We will publish the revised Tariff Structure Statement and again call for submissions.²² We will make a final determination on the proposed Tariff Structure Statement in July 2016.

What happens after a Tariff Structure Statement is approved?

Once approved, a Tariff Structure Statement will remain in effect for the relevant regulatory period.²³ The distributor must comply with the approved Tariff Structure Statement when setting prices annually for direct control services.²⁴

We will separately assess the distributor's annual tariff proposals for the coming 12 months. Our assessment of annual tariff proposals will be consistent with the requirements of the relevant approved Tariff Structure Statement.

An approved Tariff Structure Statement may only be amended within a regulatory period with our approval.²⁵ We will approve an amendment if the distributor demonstrates that an event has occurred that was beyond its control and which it could not have foreseen so that the

¹⁵ NER, cl. 6.9.3(a).

¹⁶ NER, cl. 6.10.2; cl. 11.76.2(a).

¹⁷ NER, cl. 6.10.2(a)(3); cl. 11.76.2.

¹⁸ NER, cl. 6.10.2(a)(5).

¹⁹ NER, cl. 6.12.3(k).

²⁰ NER, cl. 6.10.3(a).

²¹ NER, cl. 6.10.3(b).

²² NER, cl. 6.10.3(d)(e).

²³ Tariff Structure Statements may only be amended during a regulatory period, with our approval, if an event occurs that is beyond the distributors' reasonable control and could not reasonably have been foreseeable requires a change.

²⁴ NER, cl. 6.18.1A(c).

²⁵ NER, cl. 6.18.1B.

amended Tariff Structure Statement materially better complies with the distribution pricing principles.²⁶

Victorian Government's authority to amend the National Electricity Rules or add further regulatory requirements

The National Electricity Law (NEL) is contained in a Schedule to *National Electricity (South Australia) Act 1996* and has been adopted by each of the participating jurisdictions in the National Electricity Market. This is done by State application statutes, which vary from state to state.

In Victoria, the *National Electricity (Victoria) Act 2005* (NEVA) applies the National Electricity Law and National Electricity Rules as Victorian legislation. However, under the NEVA, the Victorian Government can modify the NEL and the Rules by Ministerial Order.

We are required to regulate applying the NEL and the Rules as they pertain to each particular jurisdiction. As explained above, we have received notification from the Victorian Minister for Energy and Resources of her intention to require Victorian distributors to implement changes to distribution network pricing arrangements by way of Ministerial Order.

The AER may only approve a Tariff Structure Statement that complies with the Rules and all applicable regulatory instruments.²⁷

²⁶ NER, cl. 6.18.1B(d).

²⁷ NER, cl 6.18.5(j). 'Applicable regulatory instruments' is defined in Chapter 10 of the NER as " All laws, regulations, orders, licences, codes, determinations and other regulatory instruments (other than the Rules) which apply to Registered Participants from time to time, including those applicable in each participating jurisdiction as listed below, to the extent that they regulate or contain terms and conditions relating to access to a network, connection to a network, the provision of network services, network service price or augmentation of a network."

3 Summary of United Energy's proposed Tariff Structure Statement & submissions

We have summarised in Table 1 the main features of United Energy's September 2015 Tariff Structure Statement and submitters' responses to those, to assist readers navigate the main or contentions issues.

Information in Table 1 will help us make a final determination in July 2016, once we receive United Energy's amended Tariff Structure Statement due 29 April 2016. That amendment will be required to show how it complies with the Victorian Government's applicable regulatory instrument discussed in section 1.

Table 1: United Energy proposed 2017–20 tariff structures and submitters responses

United Energy proposal	Submissions
<p>Alignment of tariff charging windows</p> <p>All five Victorian distribution businesses proposed to offer at least one tariff with a maximum demand charging component to their residential and small to medium business customers. There has been an alignment between all the distributors on certain aspects of the maximum demand component. These are:</p> <ul style="list-style-type: none">• Phasing-in demand – The demand component is introduced by a gradual ramp up in the charge level while the consumption / energy usage components decline.• Charge calculation – A customer's demand is calculated in 30 minute intervals over the course of a month, and the interval with the highest or maximum level of demand is used as the electricity quantity to be multiplied by a price.• Charging windows – For residential customers the charge applies from 3-9pm workdays with higher charges for summer months (Dec-Mar) compared to non-summer months.	<p>Submitters were of the view that the distributors' joint approach to aligning charging windows, and adopting only a single new tariff type – demand charges – was beneficial in helping customers understand new tariffs and for communicating the benefits of tariff reform.</p> <ol style="list-style-type: none">1. Retailers and the Competitive Energy Association consider the networks' decision to align the charging intervals for measuring demand could mitigate some of the concerns regarding customer understanding and adoption of demand tariffs.²⁸2. Consumer organisations consider a key principle in implementing cost reflective tariffs is to maintain consistency within jurisdictions to the extent practicable.²⁹

²⁸ Competitive Energy Association, *Submission to AER issues paper tariff structure statement proposals – Victorian electricity distributors*, 25 January 2016, p. 2; Lumo and Red Energy 2016, *Tariff structure statement proposals: Victorian electricity distribution network service providers*, 20 January 2016, January 2016, p. 2.

²⁹ Consumer organisations, *Consumer outcomes and principles for cost reflective network pricing*, 20 January 2016, p. 3.

Tariff design

Type of tariff / design

United Energy proposed to introduce a demand charging component into their tariff structures for residential and small to medium business customers. This will be added to the current fixed and usage components.³⁰ The majority of United Energy's proposed tariffs will be made up of a combination of the three charging components.

The demand charge:

- For residential customers – is based on a customer's highest half hour demand level (kW) recorded between 3pm and 9pm work days³¹ each month, with a minimum chargeable demand level of 1.5kW. Summer months will be charged at a higher rate than non-summer months.³² This will be reset each month.³³
- For small to medium business customers – is based on a customer's highest half hour demand level (kW) recorded between 10am and 6pm work days each month, with a minimum chargeable demand level of 1.5kW.³⁴
- Large business customers are currently charged on peak usage (\$/kVA)³⁵ between 7am-7pm and United Energy is not proposing any changes to this structure.³⁶

United Energy is not proposing to change any aspect of their large business tariff structures. Currently their large business customers are subject to a demand charge based on a \$/kVA basis. Residual revenue is recovered on a TOU energy basis.³⁷

Broad support for introduction of demand tariffs for residential and small to medium business customers.³⁸ Some submissions indicated that demand tariffs will improve cost and reduce existing cross-subsidies while giving customers opportunity to alter their usage patterns and manage their bill impacts.³⁹

A small number of submissions suggested that Time Of Use tariffs would be better placed to lower network peaks than demand based tariffs, proposing that differences in individual's demand peaks won't align with the broad charging window (3-9pm) and therefore won't impact peak demand.⁴⁰

Two submissions questioned the billing implications that residential and small business customers could face caused by the change in demand charges from summer to non-summer months and annual pricing proposals.⁴¹

³⁰ United Energy, Tariff structure statement proposal, pg. 31.

³¹ Work days does not include weekends and public holidays.

³² Summer months are December-March, non-summer months are April-November.

³³ United Energy, *Tariff structure statement proposal*, pg. 28.

³⁴ United Energy, *Tariff structure statement proposal*, pg. 31.

³⁵ United Energy, *Tariff structure statement proposal appendices*, pg. 13.

³⁶ United Energy, *Tariff structure statement proposal appendices*, pg. 9.

³⁷ United Energy, *Tariff structure statement proposal appendices*, pg. 13.

³⁸ AGL 2016, *Re: Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, p. 1; Clean Energy Council, *Clean Energy Council submission to the Australian Energy Regulator Issues paper on the Tariff Structure Statement proposals by Victorian electricity distribution network service providers*, January 2016, p. 1; Energy Australia 2016, *Submission Tariff Structure Statement proposals – Victorian electricity distribution network service providers*, 20 January 2016, p.1.

³⁹ AGL 2016, *Re: Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1–3; Energy Networks Association 2016, *AER issues paper tariff structure statement proposal – Victorian electricity distribution network service providers*, 20 January 2016.

⁴⁰ Creative Energy Consulting, *Submission to the AER issues paper on Tariff Structure Statement proposals*, January 2016;

⁴¹ Origin 2016, *Victorian tariff structure statements*, 20 January 2016, pg.2; Competitive Energy Association, *Submission to*

Defining/identifying costs and linking these to customers

Tariff classes

United Energy proposed to maintain its current tariff classes. No comments received.
These are:⁴²

- Low voltage small (<20 MWh annual energy usage at 230 volts)
- Low voltage medium (20 to 400MWh annual energy usage at 20 to less than 1,000 volts)
- Low voltage large (>400MWh annual energy and/or >15-kVA max demand at 1,000 to less than 11,000 volts)
- High voltage large (High voltage supply at 11,000 to 22,000 volts)

Sub transmission large (>66,000 volts).

Assignment and reassignment

United Energy has outlined the procedures they will use for assigning or reassigning customers to tariff classes.⁴³ No comments received.

LRMC approach

United Energy's LRMC calculation is based on the assumption that in the long run all costs are fully variable, all of the available capacity in their network is fully utilised and each individual level of the network is also fully utilised. Therefore an additional kVA of capacity at the LV connection level would necessitate building an additional kVA of capacity at each level of the network. Based on this assumption, United Energy added the relevant LRMC values for the individual connection levels when determining the total LRMC value for each connection level.

United Energy used the average incremental approach to calculate their LRMC estimates at the connection level (sub transmission, high and low voltage) using a ten year forecasting period. The calculation included the following costs:

- Annual forecasts disaggregated by connection level (sub-transmission, high voltage and low voltage) in the following streams

Energy Consumers Australia raised concerns about the application of Long Run Marginal Cost by the Victorian distributors, suggesting that LRMC could incorporate historical costs in addition to future costs.⁴⁶

⁴² AER issues paper tariff structure statement proposals – Victorian electricity distributors, 25 January 2016, p. 2

⁴³ United Energy, *Tariff structure statement proposal*, pg. 43.

⁴⁴ United Energy, *Tariff structure statement proposal appendices*, pg. 37.

⁴⁶ Energy Consumers Australia, *Victorian DNSP Tariff Structure Statement proposals - Response to the AER issues paper*, January 2016, p. 4.

- Demand-driven augmentation expenditure
- Demand-driven augmentation added capacity (in kVA)
- Customer initiated connections expenditure
- Customer initiated connections added capacity (in kVA)
- Annual overheads
- Opex rate of change for output growth (measures and weightings) as the basis to calculate incremental cost to operate and maintain the network
- Sub-transmission and high/low voltage asset lives
- Weighted average cost of capital (WACC) and CPI figures

United Energy outlined their approach of scaling their LRMC of demand estimates for each tariff class which were then used as the basis for assessing cost reflectivity of tariffs and tariff components.⁴⁴

Their scaling method involved:⁴⁵

3. Calculating the LRMC of demand (\$/kVA) at the network level for each tariff class
4. Using a customer sample calculating the coincident demand contribution on the top 5 network peak demand days for the year.
5. Using the same customer sample calculate the cumulative annual demand that would form the basis of the tariff segment revenue (weighted for seasonal demand rates).
6. Calculate the segment scaled LRMC.

United Energy then used the scaled LRMC for each customer segment (\$/kVA) as a basis for aligning their DUOS revenue to be recovered from their tariffs. They performed the alignment at the customer and tariff component level.

Customer impacts

Identifying impacts

Victorian distributors broadly described potential customer impacts of introducing a demand tariff.

- Customers with relatively flat or steady demand profiles are expected to benefit from the changes.

A number of submissions from retailers considered the extent of the customer impact analysis included in the Tariff Structure Statements by distributors was not sufficient to

⁴⁴ United Energy, Tariff structure statement proposal appendices, pg. 10.

⁴⁵ United Energy, Tariff structure statement proposal appendices, pg. 10.

- Customers with relatively peaky or fluctuating demand profiles are expected to see higher bills. However, this is assuming customers do not alter their usage in response.
- The statements do not set out detailed information on expected quantitative impacts on groups of customers, or the use of, and investment in, different appliances.

United Energy included qualitative demonstrations on how different customers will be impacted by a move to network tariff reform in sections 3.2 and 3.3 of its tariff statement. It also provided copies of presentations shown to various stakeholder groups with some examples of qualitative and quantitative impacts. On a revenue neutral basis United Energy found:⁴⁷

- Average DUOS benefit for customers shifting to the Demand Tariff v LVS1R is \$24.70pa.
- The standard deviation suggests a swing of +/- \$95 around the average.

In order to manage these impacts, United Energy outlined the transition strategy below. This strategy is discussed in greater detail in the following sections.

- Demand charges will be introduced gradually from 2017 to 2020. This will be offset by a corresponding reduction in usage charges.
- Customers will be able to opt out of the new demand tariff in 2017.

United Energy aligned key elements of their proposed residential network tariff structure with the other Victorian distributors. United Energy's approach is considered in greater detail in the transition management sections below.⁴⁸

provide a clear understanding of the impacts of demand tariffs.⁴⁹ AGL undertook its own analysis of the retail impact on customers, assuming pass-through of the network demand charges. AGL's analysis of customer impacts had similar findings to the distribution businesses.⁵⁰

Energy Australia⁵¹ and Energy Consumers Australia⁵² considered cost reflective tariffs are a net benefit for customers over the longer term, assuming the price signals are seen and able to be acted on by consumers. Energy Consumers Australia's considers there is a further short term benefit for all consumers in eliminating cross subsidies that exist between those consumers who contribute most to peak load and those who don't.

Consumer organisations raised a number of outcomes they considered important for small consumers in the transition to cost reflective pricing. These related to equity concerns, minimising price shocks and the availability and accessibility of information.⁵³

Transition management approach – gradual ramp up of cost quantum

Energy Networks Association

⁴⁷ United Energy, *Tariff structure statement proposal*, p.40

⁴⁸ United Energy, *Tariff structure statement proposal appendices*, pp.14-15

⁴⁹ Origin 2016, *Victorian tariff structure statements*, 20 January 2016, pp.1-3.; Lumo and Red Energy 2016, *Tariff structure statement proposals: Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-11.

⁵⁰ AGL 2016, *Re. Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4

⁵¹ Energy Australia 2016, *submission Tariff Structure Statement proposals – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6.

⁵² Energy Consumers Australia 2016, *Victorian DNSP tariff structure statement proposals – response to the AER issues paper*, Attachment A, January 2016

⁵³ Consumer organisations 2016, *Consumer outcomes and principles for cost reflective network pricing*, 20 January 2016, pp.1-4.

United Energy note they currently offer a tariff with a demand charging component for residential and small to medium business customers, therefore their transition strategy is for customers not currently on a demand based tariff.

- On 1 January 2017 tariffs which currently do not have a demand based charging component would have one added (and other elements reduced) into the tariff structure. These tariffs will gradually transition to cost reflective levels from 2017.⁵⁴
- They will continue to offer their current demand based tariff which is not subject to any transition towards a cost-reflective price. Customers have the option to opt-in to this tariff.⁵⁵

United Energy based its ramp-up of the demand charging component on the percent of revenue recovered from their DUOS charges. The ramp up of the demand charge component will occur as follows:

- Residential
 - 2017 - 30 per cent of DUOS charges
 - 2019 - 60 per cent of DUOS charges
- Small-medium business
 - 2017 - 25 per cent of DUOS charges
 - 2019 - 50 per cent of DUOS charges

Based on the percentages above, United Energy state that by 2019 a residential customer's demand charge will recover approximately 75 per cent of their calculated LRMC of demand. For small business customers it approximates the calculated LRMC of demand.⁵⁶

submitted that the Victorian distribution businesses have sought to manage potential customer impacts in accordance with the requirements of the NER through the staged approach to transition. However, the Energy Networks Association notes the Victorian government's regulatory instrument introduces an additional customer impact mitigation measure (the new Victorian energy demand management framework) which was not included in the Rules at the time distributors submitted their proposed Tariff Structure Statements.

Stakeholders generally support customers and retailers having time to understand and respond to cost reflective tariffs.⁵⁷ However, stakeholders have mixed views on the ramp up of the cost quantum. These are discussed in further detail below.

1. Energy Australia's view is the distributional impacts can be managed through an orderly and well managed reform process. Energy Australia considers this includes sufficient time for customers to understand the proposed tariffs and retailers to implement system changes. They have suggested 2018 as a more practical commencement date.⁵⁸
2. AGL supports the gradual transition under an opt-out process and believes this could be a sound method for increasing

⁵⁴ United Energy, Tariff structure statement proposal appendices, pg. 15.

⁵⁵ United Energy, Tariff structure statement proposal appendices, pg. 15.

⁵⁶ United Energy, Tariff structure statement proposal appendices, pg. 13.

⁵⁷ Energy Networks Association 2016, *AER issues paper tariff structure statement proposal – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6; AGL 2016, *Re: Tariff structure statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4; AGL 2016, *Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4; *Energy Consumers Australia 2016, Victorian DNSP tariff structure statement proposals – response to the AER issues paper*, Attachment A, January 2016, p.1; Energy Australia 2016, *Tariff Structure Statement proposals – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6.

⁵⁸ Energy Australia 2016, *Tariff Structure Statement proposals – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6.

cost reflectivity of tariffs while balancing the short and long term interests of consumers. However, under an opt-in approach AGL considers the gradual transition is redundant and the demand component should be made 100 per cent cost reflective from 1 January 2017.⁵⁹

3. Lumo Energy / Red Energy want no transition with tariffs to be 100 per cent cost reflective in year one. Lumo Energy / Red Energy state it is difficult to determine if the distributors' opt-out approach to transitioning to cost reflective tariffs is consistent with the consumer impact principle and have proposed an opt-in transition approach.⁶⁰

Transition management approach –opt-out demand tariffs

United Energy proposed that existing residential and small to medium business customers will have the option of opting out of a demand tariff.⁶¹

- Customers have the option to opt-out of tariffs with a demand charging component and remain out for the entire period.⁶² It is not specified if this is limited to 2017 as per other distributor's proposals.
- United Energy proposed that the opt-out tariff is similar to its existing tariff structure. Non AML customers will be moved to an opt-out tariff.

Stakeholders supported the option for customers to choose to go onto a 100 per cent costed demand tariff rather than one that ramps up over time.⁶³

At this stage of the reform process, the majority of stakeholders would not support a menu of optional tariffs— due to added implantation complexity and likely customer confusion.

The Competitive Energy Association held a contrary view, in the context of the Victorian government's decision, considers the addition of further options will enhance customer choice

⁵⁹ AGL 2016, *Re: Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4

⁶⁰ Lumo and Red Energy 2016, *Tariff structure statement proposals: Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-11.

⁶¹ United Energy, *Tariff structure statement proposal appendices*, pg.15

⁶² United Energy, *Tariff structure statement proposal appendices*, pg.15.

⁶³ Energy Networks Association 2016, *AER issues paper tariff structure statement proposal – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6; AGL 2016, *Re: Tariff structure statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4; AGL 2016, *Tariff Structure Statement proposals of the Victorian electricity distribution network service providers*, 20 January 2016, pp. 1-4; Energy Consumers Australia 2016, *Victorian DNSP tariff structure statement proposals – response to the AER issues paper, Attachment A*, January 2016, pg.1; Energy Australia 2016, *Tariff Structure Statement proposals – Victorian electricity distribution network service providers*, 20 January 2016, pp.1-6.

and retailer' ability to structure service offerings to customers' needs. The Association considers there is value in developing this idea further, however notes there will be practical limitations.⁶⁴

Transition management approach – menu of tariff structures

In addition to United Energy's transition demand tariff, it is also offering a demand tariff without a transition, which will be available to existing customers to opt-in from 1 January 2017. United Energy stated new customers will be immediately assigned to a full demand tariff (without transition) from 1 January.

Further, United Energy provided a number of different tariff options on an opt-in basis.⁶⁵

Stakeholders noted that the Victorian Government's intervention requires the distributors to reconsider and resubmit revised tariff statements. The Energy Networks Association⁶⁶, Origin Energy⁶⁷ and AusNet Services⁶⁸ submitted support for the AER to undertake a further draft decision process for the revised proposals.

Consumer groups asked that the distribution businesses, government and energy market institutions commit to a thorough consumer education program so consumers may understand and respond to new tariff structures.

Stakeholder engagement

United Energy, like the other Victorian distribution businesses, undertook a significant stakeholder engagement process to inform its Tariff Structure Statement proposal. Collectively, the distributors engaged with stakeholders using forums, focus groups, bilateral meetings, on-line tools and hard copy publications. This consultation was undertaken over a period of twelve months or more leading up to the distributors submitting their proposals to the AER for consideration.

Stakeholders noted that the Victorian Government's intervention requires the distributors to reconsider and resubmit revised Tariff Structure Statement proposals. The Energy Networks Association^[1], Origin Energy^[2] and AusNet Services^[3] submitted support for the AER to undertake a further draft decision process for the revised proposals.

⁶⁴ Competitive Energy Association, *Submission to AER issues paper tariff structure statement proposals – Victorian electricity distributors*, 25 January 2016, pp.1-3.

⁶⁵ United Energy, *Tariff structure statement proposal Appendices*, pg. 15

⁶⁶ Energy Networks Association 2016, *AER issues paper tariff structure statement proposal – Victorian electricity distribution network service providers*, 20 January 2016, p. 1.

⁶⁷ Origin 2016, *Victorian tariff structure statements*, 20 January 2016, pp.1-3

⁶⁸ AusNet Services, *Issues paper – Tariff Structure Statement proposals*, 20 January 2016, p. 1-2.

[1] Energy Networks Association 2016, *AER issues paper tariff structure statement proposal – Victorian electricity distribution network service providers*, 20 January 2016, p. 1.

[2] Origin 2016, *Victorian tariff structure statements*, 20 January 2016, pp.1-3

[3] AusNet Services, *Issues paper – Tariff Structure Statement proposals*, 20 January 2016, p. 1-2.

Consumer groups asked that the distribution businesses, government and energy market institutions commit to a thorough consumer education program so consumers may understand and respond to new tariff structures.

Appendix A — List of submissions received

Submitter

AGL

AusNet Services

Citizens Own Renewable Energy Network Australia Inc.

Clean Energy Council

Competitive Energy Association

Consumer groups - joint submission from Victorian Council of Social Service, Consumer Action Law Centre, Alternative Technology Association, St Vincent de Paul Society Victoria, Consumer Utilities Advocacy Centre, Ethnic Communities Council of NSW Inc., Northern Alliance for Greenhouse Action, CIS Vic, UnitingCare Australia.

Creative Energy Consulting

Energy Australia

Energy Consumers Australia

Energy Networks Association

John Herbst

Origin Energy

Red Energy / Lumo Energy

Saturn Corporate Resources

Trans Tasman Energy Group

Victorian Energy Minister