

# Final Decision

Essential Energy Electricity

Distribution Determination

2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 19

Tariff structure statement

April 2024

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#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	30 April 2024	15

## List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Essential Energy for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

Attachment A – Contingent projects

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# 19 Tariff structure statement

## 19.1 Final decision

This attachment sets out our final decision on Essential Energy's tariff structure statement (TSS) to apply for the 2024–29 regulatory control period. A tariff structure statement describes:

- the distributor's tariff classes and structures
- the distributor's policies and procedures for assigning customers to tariffs and tariff classes
- the charging parameters for each tariff
- the distributor's approach to setting tariff prices in annual pricing proposals.

It is accompanied by an indicative pricing schedule.<sup>1</sup>

We accepted most elements of Essential Energy's initial tariff structure statement in our draft decision. Attachment 19 of our draft decision sets out our reasons for accepting those elements. We do not repeat them in this final decision.

Our final decision focuses on:

- issues unresolved after our draft decision
- our assessment of changes between Essential Energy's proposed and revised tariff structure statement
- submissions on our draft decision and Essential Energy's revised tariff structure statement where they raised concerns over our draft decision or Essential Energy's revised proposal.

## 19.2 Final Decision

Our final decision is to approve Essential Energy's revised 2024–29 tariff structure statement with one amendment. We are satisfied that with the amendment, Essential Energy's revised 2024–29 tariff structure statement complies with the pricing principles for direct control services in the National Electricity Rules (NER) and is consistent with other applicable requirements of the NER. The amendment is to:

- change references to 'battery' tariffs to 'storage' tariffs to reflect that these tariffs should be applicable to all storage technologies with similar connection and load profile characteristics.

Our draft decision noted that the New South Wales Government is working with distributors on common principles to recover New South Wales Electricity Roadmap costs. Once agreed on, common principles to govern distributors' Roadmap costs will be reflected through Essential Energy's annual pricing proposal.

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<sup>1</sup> NER, cl. 6.18.1A.

Our final decision sets out the minimum changes required that we consider necessary for us to approve Essential Energy’s tariff structure statement.<sup>2</sup> We publish the final version of Essential Energy’s tariff structure statement and tariff structure explanatory statement alongside this decision. For transparency, we publish both a clean version and a marked-up version.

Table 19.1 summarises our final decision on elements of Essential Energy’s revised tariff structure statement that were not approved in our draft decision or have been changed from the proposed tariff structure statement.

**Table 19.1 - Overview of new or amended elements of revised tariff structure statement**

Issue	Our draft decision	DNISP’s revised tariff structure statement	Our final decision
<b>Individually calculated tariffs</b>	Required Essential Energy to provide more information on its approach to setting individually calculated tariffs and the associated charging parameters	Provided further information on individually calculated tariffs	Approve the proposed tariffs and tariff structures
<b>Two-way tariffs</b>	Approved proposed export reward tariff but suggested Essential Energy consider expressing the basic export level in kWh and applying the export charge on a dollar per kWh basis	Simplified the export tariff bands and applied the export charge on a dollar per kWh basis and converted the basic export level to 1.5 kWh hour.	Accept changes
<b>Battery/Storage tariffs</b>	Approved LV battery/storage tariff but did not approve HV battery/storage tariff and required Essential Energy to identify the level for its rebate parameter	Removed the rebate parameter from the HV battery/storage tariff, broadened eligibility for LV and HV storage customers and introduced a small LV battery/storage tariff	Accept changes to tariffs but amend references to ‘battery’ tariffs to ‘storage’ tariffs

<sup>2</sup> NER, cl 6.18.5(d).

Issue	Our draft decision	DNSP's revised tariff structure statement	Our final decision
<b>Network tariffs for approved green hydrogen producers</b>	Approved Essential Energy's approach to implementing the NSW Government's network concessions but encouraged explanation of how it would be given effect through individually calculated tariffs	Added information to revised tariff structure statement	Accept change
<b>Opt-in controlled load tariff for flexible load</b>	Encouraged Essential Energy to develop an additional controlled load tariff targeting flexible load	Did not develop the tariff but provided explanation	Accept revised tariff structure statement with additional explanatory information
<b>Small customer assignment policy</b>	Encouraged Essential Energy to include more information on a change to its assignment policy for the sun-soaker two-way tariff	Added information to revised tariff structure statement	Accept change
<b>Customer impact analysis</b>	Encouraged Essential Energy to provide more customer impact analysis on two-way tariffs for small and large customers	Added information to revised tariff structure statement	Accept change

### 19.3 Essential Energy's revised proposal

Essential Energy's 2024–29 revised tariff structure statement is largely consistent with the tariff structure statement initially submitted in January 2023. In response to our draft decision Essential Energy's revised tariff structure statement:

- provided more information on the approach to setting individually calculated tariffs
- justified removal of the rebate from the high voltage (HV) storage tariff

- simplified its two-way tariff by adopting an energy-based kWh export tariff and basic export level (for residential and small business customers) and removing export pricing bands<sup>3</sup>
- included supporting information on the further change to its residential assignment policy
- provided further customer impact analysis on residential and low voltage (LV) large business customers moving to two-way pricing
- added information on how it would give effect to the NSW Government’s *Electricity Supply (General) Amendment (Green Hydrogen Limitation) Regulation* through individually calculated tariffs.

Essential Energy proposed the following changes in its revised tariff structure statement in addition to our draft decision:

- the addition a new storage tariff for small LV pole-top batteries/storage
- broadened the eligibility of its LV and HV storage/battery tariffs to include customers with co-located generating units.

## 19.4 Assessment approach

We assessed the tariff structure statement against the requirements of the NER.

First, the NER set out elements that an approved tariff structure statement must contain.<sup>4</sup> These include the structure of proposed tariffs, and the policies and procedures the distributor will use to assign customers to those tariffs.

Second, a tariff structure statement must comply with the distribution pricing principles.<sup>5</sup> Broadly, the pricing principles require tariffs to be based on long-run marginal costs and reflect a distributor's efficient costs of providing the service. An approved tariff structure statement must have regard to the impact on customers in the transition to cost reflective tariffs.

Refer to our draft decision for a detailed description of our assessment approach.<sup>6</sup>

### 19.4.1 What happens after a tariff structure is approved?

Once approved, a tariff structure statement will remain in effect for the relevant regulatory control period. The distributor must comply with the approved tariff structure statement and be consistent with the indicative pricing schedule when setting prices annually for direct control services.<sup>7</sup>

We will separately assess the distributors’ pricing proposals for the coming 12 months. Our assessment of pricing proposals will be consistent with the requirements of the relevant

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<sup>3</sup> kWh = kilo-watt hours.

<sup>4</sup> NER, cl. 6.18.1A(a).

<sup>5</sup> NER, cl. 6.18.1A(b).

<sup>6</sup> AER - *Draft Decision Attachment 19 - Tariff structure statement – Essential Energy - 2024-29 Distribution revenue proposal - September 2023*.

<sup>7</sup> NER, cl. 6.18.2(b)(7), cl. 6.18.2(b)(7A).



approved tariff structure statement. A distributor is required to submit its initial pricing proposal within 15 business days after publication of our determination.

An approved tariff structure statement is intended to provide certainty and transparency to customers for 5 years. It can only be amended within a regulatory control period with our approval.<sup>8</sup> 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, and that the occurrence of the event means that the amended tariff structure statement materially better complies with the distribution pricing principles.<sup>9</sup>

## 19.5 Reasons for final decision

As noted under *19.1 Final Decision*, our final decision is to approve Essential Energy's tariff structure statement with one amendment.

In this section, we outline our reasons for:

- accepting Essential Energy's decision to not propose new options for flexible load like electric vehicles (EVs)
- approving the revised energy-based kWh two-way tariff charge and basic export level, and removal of export pricing bands
- approving Essential Energy's approach to setting individually calculated tariffs
- amending references to battery tariffs to instead refer to storage tariffs
- approving removal of the rebate from the HV storage tariff
- approving the addition of a new, LV pole-top storage tariff
- accepting Essential Energy's tariffs as proposed for EV charge point operators.

We have not provided additional analysis of the following (stakeholders should refer to attachment 19 of our draft decision for detail on these):

- elements we approved in our draft decision and that Essential Energy did not change between its proposed and revised tariff structure statements
- elements of our draft decision that Essential Energy adopted or addressed.

### 19.5.1 Residential and small business tariffs

#### 19.5.1.1 Tariff structures for flexible load like EVs

Our draft decision encouraged Essential Energy to investigate the feasibility of an opt-in controlled load tariff for flexible load. We accept Essential Energy's reasons for not proposing new tariff options targeting flexible load, like EVs. We consider that Essential Energy's proposed suite of tariffs and tariff assignment policies are appropriate for managing EV charging load at this time.

#### Essential Energy's revised proposal

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<sup>8</sup> NER, cl.6.18.1B.

<sup>9</sup> NER, cl.6.18.1B(d).

Essential Energy, like other distributors, decided to not propose any new tariff option targeting residential EVs and other flexible load. Essential Energy confirmed that while single phase EV chargers would be eligible to access its existing controlled load tariffs, EV owners would be unlikely to use them because present technology generally does not permit customer override. Additionally, under existing controlled load tariffs, customers may not be able to use solar energy on their primary circuit to charge EVs on a secondary, controlled load circuit.<sup>10</sup> We note this could further disincentivise uptake of the controlled load tariff by EV owners.

Instead, Essential Energy proposed to rely on its suite of tariffs already approved in the draft decision to manage EV charging load. These tariffs have structures that incentivise EV charging at times that benefit the network, particularly during the high solar period. All EV customers with smart meters will face a default network tariff with a low-priced solar soak period in the middle of the day. This could incentivise customers to shift flexible load to that period, and higher prices in the peak periods will help to encourage load shifting out of those periods. Customers with solar are also incentivised to use their solar energy to charge their EVs during the day.

Tesla's submission supported the view that controlled load tariffs are not appropriate to manage EV load.<sup>11</sup>

### **AER considerations**

We consider Essential Energy's suite of tariffs are appropriate for managing residential EV charging load for the 2024–29 regulatory period. The five-hour solar soak periods provided in its residential time-of-use and demand tariffs (between 10am – 3pm) provide opportunity for low priced EV charging during the day and for those without access to day-time charging, off-peak prices overnight provide a cheaper alternative than peak-period charging.

#### **19.5.1.2 Two-way tariffs**

Our draft decision encouraged Essential Energy to consider expressing its export charge and basic export level in kWh as this is easier for consumers to understand and retailers to incorporate in retail offers. We also observed Essential Energy was the only network to propose a more complex inclining block pricing structure above the basic export level.

Our final decision is to accept Essential Energy's revisions to its two-way pricing proposal to:

- express its basic export level and export charge in kWh instead of in kW and
- to apply a single export charge above the basic export level instead of an inclining block pricing structure.<sup>12</sup>

### **Essential Energy's revised proposal**

Essential Energy's revised tariff structure proposed a basic export level of 7.5 kWh per day between 10am – 3pm for its residential and small business sun-soaker, time-of-use two-way

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<sup>10</sup> Essential Energy, *Attachment 9.02 Revised Tariff Structure Explanatory Statement*, November 2023, p 59.

<sup>11</sup> Tesla, *Submission on the revised proposals and draft decisions 2024-29*, January 2024, pp 2 – 3.

<sup>12</sup> kW = kilowatt.

tariff. It also removed complexity in its structure by removing the initially proposed inclining block structure (or export 'band'). Customers already assigned to demand tariffs and large business customers who will be assigned to an export reward tariff will continue to have kW export charges.

Essential Energy submitted most of its stakeholder group supported the simplification of adopting a kWh export tariff and stated:

- several retailers indicated their billing systems would be unable to process a kW export charge.
- its tariff trials found customers prefer simpler tariffs
- customers in its People's Panel supported moving to a kWh export charge for small customer due to concerns about:
  - the ability for customers to understand and respond to a kW charge
  - customers would not receive a signal to change behaviours once their monthly peak export had been reached.<sup>13</sup>

## Submissions

PIAC submitted that it opposes the change to express the basic export level in kWh instead of kW because kWh charges did not represent the preferences or long-term interests of Essential Energy's consumers. It also submitted that Essential Energy's People's Panel had made its decision exclusively based on bill impact modelling that Essential Energy presented. On this basis, it submitted that the outcomes of Essential Energy's September People's Panel were not a meaningful expression of consumer preferences.<sup>14</sup>

## AER considerations

We recognise PIAC's concern that a kWh-based export charge and basic export level is less cost reflective than a kW-based charged. However, we consider Essential Energy's proposed change to express its basic export level and export charge in kWh will be easier for customers to understand, and for retailers to implement. We also consider that it is appropriate to maintain kW-based charges for customers already facing demand consumption charges. The combination of these tariffs will contribute to a better response by customers to the price signals sent through by retailers. Customer response will help address export congestion and help reduce the need for future investment and future costs to customers.

## 19.5.2 Medium and large business tariffs

### 19.5.2.1 Individually calculated tariffs

Our draft decision did not approve Essential Energy's individually calculated tariffs. Individually calculated tariffs are designed for individual customers. They are typically offered to large business users to signal bespoke, localised price signals due to their outsized impact

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<sup>13</sup> Essential Energy, *9.01 Revised tariff structure statement*, November 2023, p 47.

<sup>14</sup> Public Interest Advocacy Centre, *Draft decision 2024-29 revenue determinations: Ausgrid, Endeavour, and Essential Energy*, 19 February 2024, p 32.

on the distribution network. Our view was that large customers on individually calculated tariffs should be afforded transparency and certainty in the tariff structures available to them in a regulatory control period.

We required Essential Energy to provide clarity on its individually calculated tariffs, specifically on how it would diverge from otherwise applicable tariffs, the charging parameters that would apply, and the load characteristics Essential Energy would consider when assigning a customer to an individually calculated tariff.

Our final decision is to accept Essential Energy's individually calculated tariffs. Essential Energy addressed our draft decision by including the following information in its revised proposal:

- eligibility for customers to access an individually calculated tariff - if consumption has been equal or greater than 40 GWh or electricity demand is greater than 10 MW<sup>15</sup>
- considerations for setting site-specific tariffs, such as the structure of the default tariff to which the customer would otherwise be assigned.<sup>16</sup>

### 19.5.2.2 Storage tariffs

Our draft decision approved most aspects of these tariffs. However, we did not approve the HV storage tariff because Essential Energy had not settled on a rebate level in its initial tariff structure statement proposal. Following our draft decision, we sought clarity from distributors proposing battery tariffs that these tariffs could apply to all storage technology with similar connections and load profiles.

Our final decision is to accept, with one amendment, Essential Energy's storage tariffs. The amendment is that references to 'battery' tariffs are changed to 'storage' tariffs. This change was discussed with Essential Energy after our draft decision was published.

### Essential Energy's revised proposal

In response to our draft decision, Essential Energy removed the rebate element from its HV battery. Essential Energy submitted that energy arbitrage opportunities in the evening peak would be sufficient to drive battery cycling without requiring rebates/subsidies from other customers.

Some stakeholders did not support removal of the rebate from the HV storage tariff. Submissions from Tesla and ACEnergy submitted that the HV storage rebate should be retained because:

- the scale of arbitrage opportunity for HV storage assets is equivalent to low voltage storage (for which the proposed storage tariff retains a rebate).<sup>17</sup> Tesla also submitted that >5 MV batteries should be able to opt into storage tariffs (rather than be mandatorily

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<sup>15</sup> GWh = gigawatt hours.

<sup>16</sup> Essential Energy, *Attachment 9.02 Revised Tariff Structure Explanatory Statement*, November 2023, pp 27, 30.

<sup>17</sup> Tesla, *Submission on the revised proposals and draft decisions 2024–29*, January 2024.

assigned to them) and recommended reviewing if demand charges in kVA is the most appropriate default charge for community storage<sup>18,19</sup>

- the rebate reflected benefits to the network.<sup>20</sup>

Essential Energy also introduced a new small LV storage tariff (up to 250 kW) in response to submissions to its proposed tariff structure statement. Origin Energy's submission supported this change and CCP26 commended Essential Energy for its engagement on storage tariffs generally.<sup>21,22</sup>

### AER consideration

We consider Essential Energy's storage tariffs were designed in consultation with stakeholders and reflect learnings from Essential Energy's tariff trials. Essential Energy has explained that the benefits of HV storage on the network are still uncertain and that, relative to the low voltage network, a rebate for HV connected storage is not necessary to incentivise charging behaviour that benefits the grid.<sup>23</sup> We recommend Essential Energy explore further innovative trials for HV storage in the 2024–29 period to incorporate improving understanding of the potential costs and benefits of storage to the network.

#### 19.5.2.3 Tariffs for EV charge point operators

For EV charge point operators, we did not make any suggestions for improvement in our draft decision. We note that Evie Networks submitted a number of arguments against existing tariffs being applied to EV charge point operators in NSW, including that the NEO's emissions targets have been misrepresented and should be considered as supporting a specific tariff for EV charge point operators.<sup>24,25</sup> We have reflected on the new emissions reduction objectives in assessing tariffs available to charge point operators and consider Essential Energy's tariffs to be appropriately balanced against the pricing principles of the NER.

In this round of tariff structure statements, we have encouraged increased alignment across distributors on access to time-of-use tariffs for peaky load businesses like charge point operators. From 1 July 2024 peaky load customers with annual consumption below 160 MWh per annum in NSW will join similar customers in Victoria and the ACT in having access to time-of-use tariffs (opting-out of demand/ or capacity tariffs).<sup>26</sup> These customers in

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<sup>18</sup> Tesla, *Submission on the revised proposals and draft decisions 2024–29*, January 2024, p 11.

<sup>19</sup> MV = megavolt, kVA = kilovolt amps.

<sup>20</sup> ACEnergy, *Submission on Essential Energy's revised proposal and draft decision 2024–29*, January 2024, p 1.

<sup>21</sup> Origin Energy, *Submission on Endeavour Energy and Ausgrid's revised proposals and draft decisions 2024–29*, January 2024, p 6.

<sup>22</sup> CCP26 (Consumer Challenge Panel 26), *Advice to the AER, 2024-29 Revised electricity determination and draft decision – Essential Energy*, January 2024, p 13.

<sup>23</sup> Essential Energy, *Response to IR#058*, March 2024.

<sup>24</sup> National Electricity Law, s 7(c).

<sup>25</sup> Evie Networks, *2024-29 Submission on Revised Proposals and Draft Decision*, February 2024; Marsden Jacobs, *Report for Evie*, February 2024.

<sup>26</sup> In Ausgrid's network, there is an additional requirement for customers to have demand higher than 100 kVA to be able to access time-of-use tariffs.

Essential Energy’s jurisdiction already had access to time-of-use tariffs in the 2019–24 period.

Our view continues to be that demand and capacity tariffs are appropriate tariffs for EV charge point operators and their use of the network, and the 160 MWh per annum threshold is reasonable in the context of the new NEO. Peak demand and capacity charges only apply during peak times (5pm – 8pm for Essential Energy). Smaller demand charges apply during off-peak and shoulder times – that is, peak demand charges only apply for spikes in demand that contribute to the evening peak. Existing large business tariffs signal these costs to charge point operators and incentivise these businesses to respond.<sup>27</sup>

We support a collaborative approach to developing tariffs and tariff trials aimed at peaky load businesses, and encourage collaboration between the sector, distributors and government bodies. However, we do not support network tariff concessions for these customers that increase the contribution to network cost recovery required of other customers within the same customer class.

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<sup>27</sup> Evie Network’s submitted that charge point operators are able to curtail demand on peak demand days. - Evie Networks, *2024-29 Submission on Revised Proposals and Draft Decision*, February 2024, p 7.

## Shortened forms

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AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CER	consumer energy resources
CPI	consumer price index
HV	high voltage
LRMC	long-run marginal cost
LV	low voltage
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PV	photovoltaic
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RIN	regulatory information notice

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