Victorian Electricity Networks

Small Business Network Pricing

June 2024

Consultation Paper

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ABBREVIATIONS

AER	Australian Energy Regulator
CER	Consumer Energy Resource
DNSP	Distribution Network Service Provider
EV	Electric Vehicle
Solar PV	Solar Photovoltaic
ToU	Time of Use

1. BACKGROUND

1.1 PURPOSE

This consultation paper has been prepared by the Victorian electricity distribution network service providers (DNSPs)—AusNet, CitiPower, Jemena, Powercor and United Energy—the five companies that transport electricity to homes and businesses across Victoria. Every five years we (the five DNSPs) undertake a major review of our electricity network pricing structures. We are currently undertaking one of these review processes, and any new or changed pricing structures will come into effect from 1 July 2026. As a part of this process, we need to submit a proposed set of electricity network pricing structures to the Australian Energy Regulator (AER) in January 2025 for approval by April 2026.

While our review of prices applies to all of the customers connected to our electricity networks, the subject of this paper focuses on network tariffs that apply to small business customers (consuming no more than 40MWh per annum), including pricing structures and tariff assignment rules. This paper aims to provide information to stakeholders, including small business advocates, on these issues, and seeking feedback on the questions raised. The feedback received will be considered by us in deciding the pricing structures for small business customers for the next regulatory period from 1 July 2026 to 30 June 2031 (next regulatory period).

1.2 CURRENT TARIFF STRUCTURES

The Victorian DNSPs charge electricity retailers to transport electricity to homes and businesses across Victoria through network tariffs that apply to each customer. While we do not charge customers directly, customers ultimately pay for our services within the electricity bill they receive from their retailer. Small business customer retail bills are usually bundled meaning that the bill only shows total retail charges and does not show the underlying costs such as network charges.

The three main tariff structures offered by the five Victorian electricity DNSPs to small business customers are shown in Figure 1–1.

Figure 1–1: Victorian small business network tariff structures

Charge Type	Single[1]	ToU[2]	Demand[3]
Fixed	✓	✓	✓
Anytime energy	✓		✓
Peak energy		✓	
Off-peak energy		✓	
Maximum demand			✓

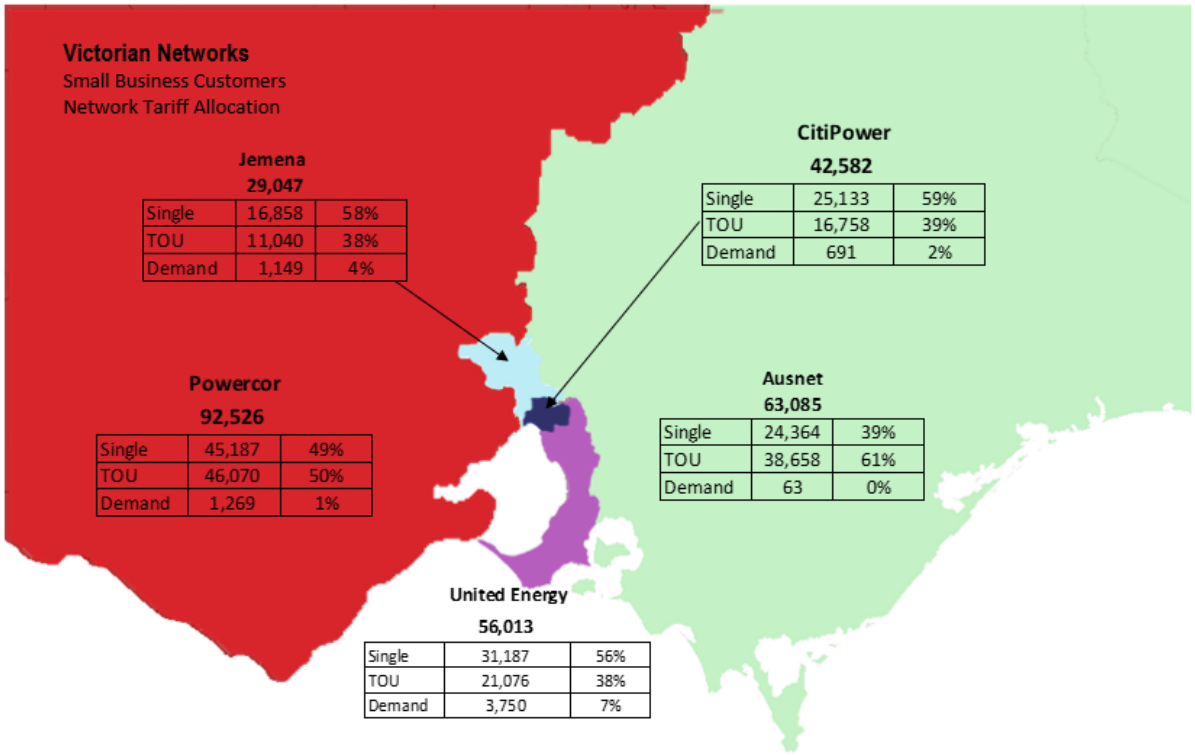
[1] Under a single-rate structure, usage charges —measured in kilowatt—hours do not vary with the time of day.

[2] The Time of Use (ToU) structure has two different usage charges that vary with the time of day.

[3] The demand tariff structure has a usage charge that does not vary with the time of day, and a demand charge that reflects the maximum demand during a 30 minute interval within a pre-defined period. i.e. maximum demand per month.

We have a diverse range of small businesses connected to our network, some of our customers include customers in retail, real estate, construction, health, professional services and transport sectors. Figure 1–2 sets out the approximate number of Victorian small business customers on the three electricity network pricing structures.[4] As shown on the map, most Victorian small business customers are on a single-rate or ToU network tariff. Whilst there are several subtly different ToU network tariffs, the majority have a peak energy period of 9am to 9pm weekdays (local time). This weekday peak period was adopted for the 2021-26 regulatory control period (current regulatory period), given this is the time when our small business customers impose greater network investment needed to deliver electricity.

Figure 1–2: Victorian small business customers are currently assigned to different network pricing structures



We recognise that energy bills are a large operating cost component for many small businesses in Victoria. We also acknowledge that while some small businesses may be able to shift their consumption, others will have limited flexibility to do this (for example, shops open during business hours or restaurants that open during mealtimes). When considering which network tariff and structure to apply to small business, we need to take into account customers' needs and balance it against making our tariffs more cost-reflective. We are particularly mindful of the potential impact on small businesses who may have limited choice about when to consume electricity in order to carry out their business operations to serve their customers. In addition we will also consider how small business peak time usage may contribute to overall peak demand on the network.

1.3 CURRENT TARIFF ASSIGNMENT RULES

The five Victorian DNSPs currently align their small business electricity network tariff assignment criteria which are as follows:

- Small business customers are assigned to the default ToU tariff when:

[4] Information as of December 2023

- connecting a new connection
- a new or upgraded solar, or battery is installed
- supply is upgraded to three-phase
- customers connect with Electric Vehicles (EVs)

- The small business customer on the:
  - single-rate tariff may request to be reassigned to the default ToU or demand tariff.
  - default ToU tariff may request to be reassigned to the single-rate or demand tariff, except for customers with EVs who cannot be assigned to a single-rate tariff. [5]
  - demand tariff may request to be reassigned to the single-rate or ToU tariff, except for customers with EVs who cannot be assigned to a single-rate tariff.[5]

2. REFLECTIONS ON WHAT WE HAVE HEARD SO FAR

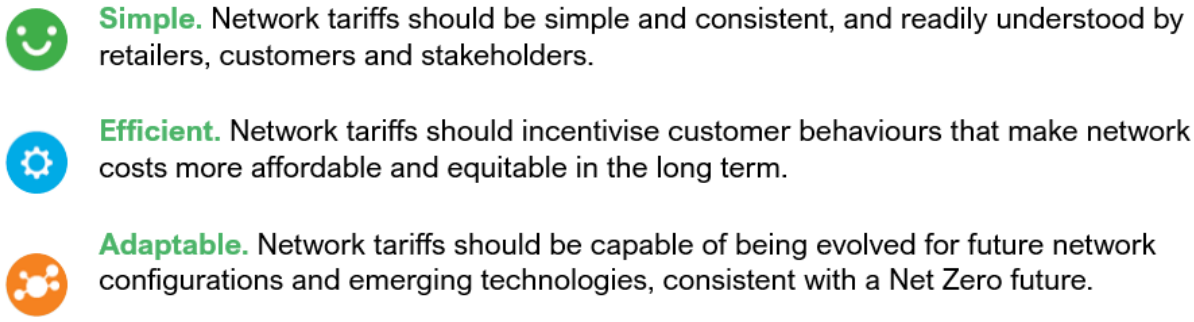
Our current options for future small business network pricing structures are a product of our engagement with customers and stakeholders.

2.1 JOINT VICTORIAN DNSP CONSULTATION

When receiving an electricity bill, the small businesses only see the structure of their retail tariff, which may nor may not be the same structure as the network tariff. We have consistently heard that we need to design network tariff structures assuming that they would be mirrored in retail tariff structures.

The following figure 2.1 summarises pricing objectives identified through our joint DNSP consultation with customer and stakeholder representatives to date. The Victorian networks held three major consultation forums across 2023 and 2024. The consultation involved customers, customer advocacy groups, retailers, industry experts, and representatives from the AER and the Victorian government. As part of these forums we developed a set of pricing objectives that we would adopt to guide us in developing our tariffs structures for the next regulatory period. While the focus of the forums was on residential customers, the findings are also relevant to small businesses.

Figure 2–1: Updated pricing objectives identified through our engagement



[5] Under the Victorian Government AMI Tariffs Order in Council, EV customers cannot access the single-rate tariff structure.

2.2 OTHER FEEDBACK

Jemena undertook small business customer forums in May 2024 wherein the stakeholders reinforced the key pricing objectives of simplicity and economic efficiency. Customers were also concerned about the pace of change in the energy market, and whether information from their DNSPs or retailers is allowing them to stay abreast of information pertinent to their businesses. Specific issues raised included lack of understanding of retail pricing, the viability of solar panels and battery storage for small businesses and the future of EV charging.

In May 2024, Energy Consumers Australia published a report in association with the Small Business Organisations Australia, investigating the effects of the energy transition on small businesses[6]. This report highlights small business owners' prevailing concerns about the cost of the energy transition and a lack of knowledge enabling them to make the right decision.

2.3 IMPLICATIONS FOR SMALL BUSINESS TARIFF STRUCTURES

A consistent and strong message we have heard is that the small customer tariff structures should continue to be **simple**. We interpret this to means that small business customers need to be able to understand their network tariffs, including having access to the simplest tariff (single-rate).

Efficient tariff structures mean providing incentives for behaviour which could help reduce future network prices. Our costs, and therefore customers' bills, are influenced by the need to meet peak usage on the electricity grid. If we can reduce growth in peak usage, this will abate the growth of future network capacity requirements, and avoid placing upward pressure on customer bills in the long-term. Additionally, the unit cost of electricity will reduce if we can encourage more usage at times when there is ample network capacity.

Adaptable tariff structures means that they should accommodate and adapt to new emerging energy technologies such as solar PV, batteries and EVs.

3. WHAT ARE WE TRYING TO ACHIEVE?

As DNSPs, we transport electricity safely and reliably to and from our customers. With the emergence of the energy transition moving at a rapid pace, our networks need to adapt to the fast-changing energy landscape and be able to support our customers through this economically.

Traditionally, our costs reflect our need to meet peak demand on the electricity grid – that is, when everyone is using electricity at the same time. In most parts of Victoria, this usually occurs on very hot days when customers are using appliances to cool their homes and businesses. With electrification of gas appliances however, we expect to see more peak demand also occurring on winter days, as more households and businesses use electric heating (which typically consumes a lot of energy).

Additionally, with more and more customers installing solar and exporting excess solar back onto the electricity grid, network businesses are starting to grapple with issues caused by exports, particularly in residential areas with a large amount of rooftop solar. It can cause issues on our networks, such as voltage management issues where voltage fluctuations result from more electricity being pushed onto the grid than customers consuming and may damage network assets or customer equipment.

[6] Small Business Organisations Australia, *Small Steps, Bright Future*, May 2024

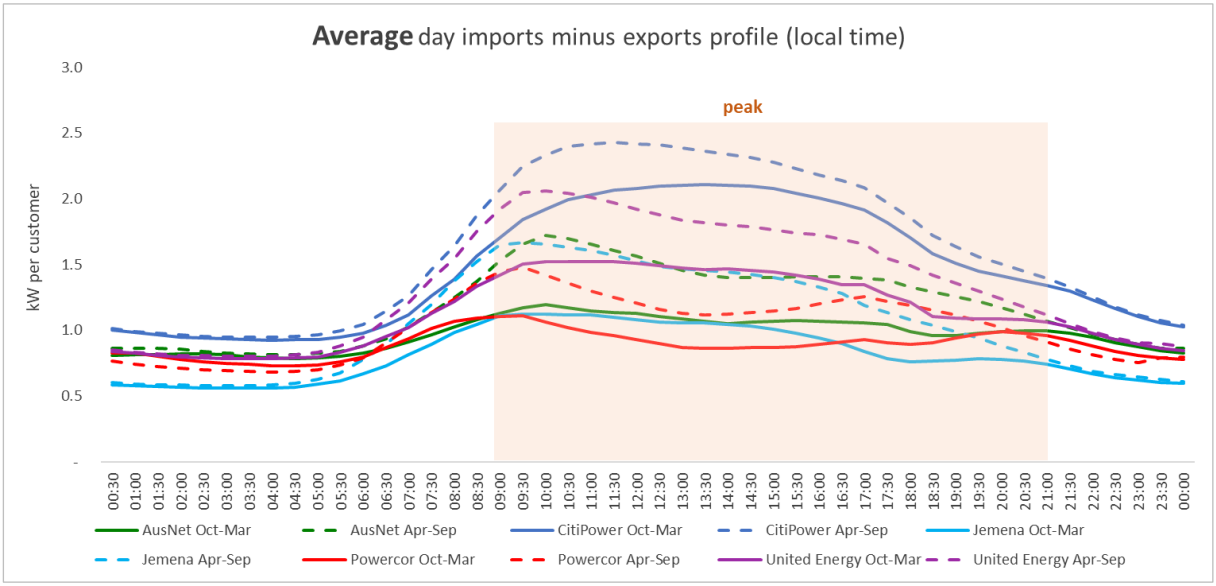
The need to adapt and support our customers in this fast-changing energy landscape has become apparent more than ever.

3.1 HOW CAN SMALL BUSINESSES HELP ADDRESS PEAK DEMAND ISSUES?

Since the start of 1 July 21, the five Victorian DNSPs have aligned their default ToU tariff structure for small businesses and the majority of small businesses across each network have been assigned to this tariff structure.

Figure 3–1 shows the average small businesses consumption behaviour across all days since the change. The orange shading shows the current ToU peak period (9am to 9pm weekdays, local time), and the consumption peaking in mid-morning in winter.

Figure 3–1: Average small business daily profile



On weekdays, Figure 3–2 shows that our small business customers' consumption can either peak mid-morning in winter or afternoon in summer. Network assets located in predominantly small business areas, will need to be sized to meet the peak demand of local small businesses.

Figure 3–2: Small business daily profile on weekdays (Monday to Friday)

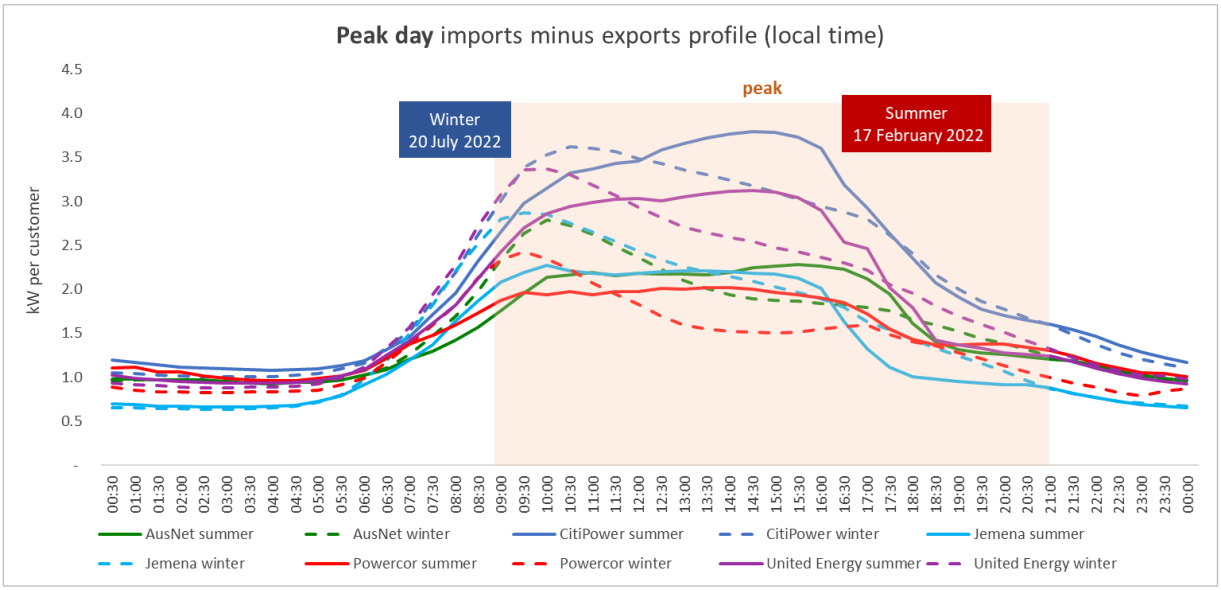
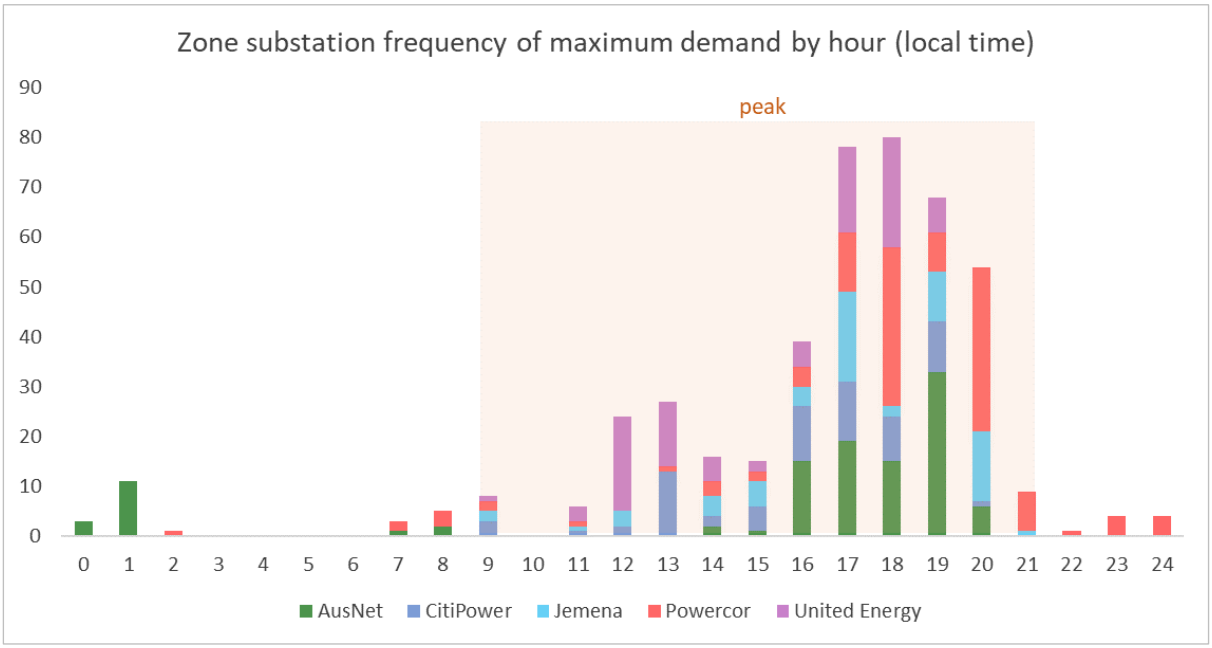


Figure 3–3 shows how the electricity distribution networks are used across Victoria in when our (approximately) 230 zone substations are under most stress. Zone substations reflect the aggregate demand of residential, small business and commercial and industrial customers. It shows that most zone substations have been peaking between 4pm to 8pm. There are also “tails” to this period, with several substations peaking outside these times.

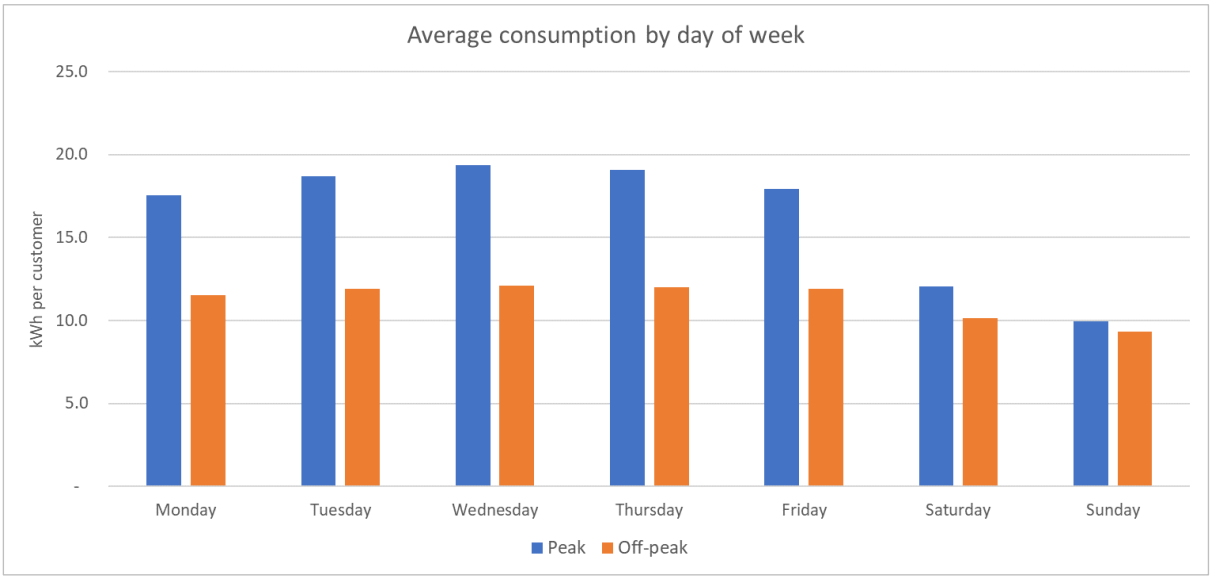
Figure 3–3: Victorian zone substation peaks by hour of day (2021-23), local time



The challenge is to abate the growth in peak usage between 4pm to 8pm and increase the use of our networks outside these times. The role of network pricing in addressing these issues is becoming increasingly challenging, but important to achieve this goal.

Figure 3–4 shows that peak period (9am to 9pm) consumption is lower on weekends when it is similar to off-peak consumption, and this continue to indicate that peak pricing is not needed on weekends.

Figure 3–4: Small business average daily consumption by day of week



Analysing Figure 3–1 to Figure 3–4 in parallel, we can conclude that the existing peak periods in the default ToU tariff is targeting around the right time of the day on weekdays. It reflects a typical small business operation on weekdays where peak hours during winter and summer are related to the additional load required for heating and cooling needs respectively. There is no apparent need to adjust the length of the peak period i.e. increase or decrease the number of peak hours, as it is sending the correct pricing signals to target small business customers to influence them to alter their peak consumption behaviour (if possible). There is however, justification to shift the peak period from 9am-9pm to 8am-8pm as the load profile (see Figure 3–2) suggest the consumption starts to increase around 8am and decrease around 8pm. However, it is unclear to what extent small businesses would be able to respond to the changing price signals.

Box 4–1: Seeking views

Do you see value in changing the small business default ToU peak period from 9am-9pm to 8am-8pm to reflect the current small business peak load profile?

3.2 IS THERE A CASE FOR SOLAR SOAK?

A solar soak period is a time of day that encourages customers to shift and consume their energy within this period to help address excess solar generation and minimum demand issues on the network.

As seen in Figure 3–2 and Figure 3–4, both figures (excluding weekends and public holidays) depict small businesses consuming their energy during the middle of the day when peak solar generation is high. As an alignment between existing small business consumption and peak solar generation currently exists, the need to send a pricing signal to encourage middle of the day consumption does not seem to be required. In addition to this, introducing a solar soak period could exacerbate the small business daytime peak whilst a cheap solar soak charge contradicts the purpose of cost reflectivity as the solar soak charge will not reflect the cost of serving small business customers when they are consuming at their peak.

Therefore, we consider that the default ToU tariff structure for small business customers should not be updated to include a solar soak period.

Box 4–2: Seeking views

Should a solar soak period be introduced into the small business default ToU tariff, and if so, why?

4. TARIFF STRUCTURES FOR SMALL BUSINESSES

4.1 TARIFF STRUCTURE

Designing efficient tariffs for small businesses is challenging due to the different types of small businesses, the diversity in consumption profiles and where they are located in our network.

Instead of designing complex network tariffs to targeting a diverse set of small business customers, we will keep things simple and propose to retain the two-rate ToU tariff as the default tariff. We will also propose that small businesses should be able to remain on their existing single-rate tariff or be able to opt into a single-rate tariff, ensuring small businesses have tariffs options that can cater to their diverse needs.

Box 4–3: Seeking views

Do you agree that small businesses should be able to remain on existing their single-rate tariff, or be able opt into a single-rate tariff?

We propose to retain the small business opt-in demand tariff since some retailers have opted small businesses customers into this network tariff.

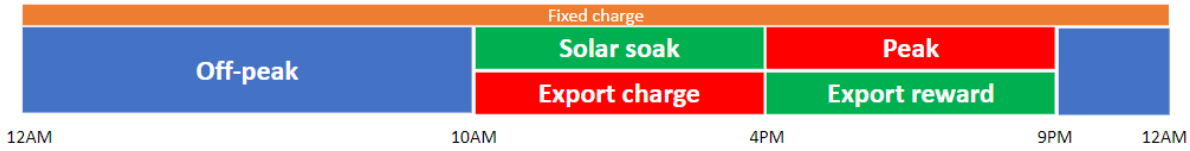
Box 4–4: Seeking views

Should we retain the small business opt-in demand tariff?

We have proposed a residential Consumer Energy Resources (CER)[7] tariff targeting customers and aggregators with batteries and EV vehicle-to-business/grid. Our proposed residential CER tariff includes ToU tariff components (peak, off-peak and solar soak charge) and in addition to these there is an export charge during the solar soak period to discourage pushing excess solar generation into our network and an export reward during the residential and network peak consumption period (4pm – 9 pm) to incentivise batteries and other CERs to discharge or provide generation during these times.

[7] A Consumer Energy Resource is any device that a customer connects to a distribution network that can be used to support the electricity system. The most common CER device is a rooftop photovoltaic generation unit.

Figure 4–1: Proposed residential CER tariff structure



For small businesses, we are not intending to introduce a CER tariff for small business. We believe the current ToU and demand tariffs already provide the right pricing signals for small businesses with CER. Small business peak energy and demand pricing:

- discourages small businesses from charging an EV in the middle of the day which could exacerbate small business peak demand
- encourages small businesses to use energy from batteries and EVs during the day to offset their usage / maximum demand.

Box 4–5: Seeking views

Should we introduce a small business CER tariff, and if so, what benefits will this tariff provide in meeting our pricing principles?

4.2 TARIFF ASSIGNMENT RULES

We believe that the current tariff assignment rules as explained in Section 1.3 are working well and will be proposing to carry them over into the 2026-31 regulatory control period.

Box 4–6: Seeking views

Do you agree or disagree that there is no reason to change the current tariff assignment rules? Please provide your reasoning.

4.3 SUBMISSIONS

We would like to hear your views on our current thinking. Please provide submissions to tariffs@powercor.com.au by **20 July 2024**. Should you wish to discuss in person, please contact one or more of the following:

- AusNet: Edwin Chan at edwin.chan@ausnetservices.com.au
- Citipower, Powercor and United Energy: Mark de Villiers at MDevilliers@powercor.com.au
- Jemena: Sandeep Kumar at sandeep.kumar@jemena.com.au