



Department of Environment, Land, Water and Planning

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Ref: MBR042475



Dear Kami Kaur

VICTORIAN GOVERNMENT SUBMISSION ON TARIFF STRUCTURE STATEMENTS 2021-26

The Department of Environment, Land, Water and Planning (DELWP) appreciates this opportunity to provide feedback on the Tariff Structure Statements submitted by the distribution business for the upcoming 2021-2026 regulatory period.

DELWP recognises the extensive consumer engagement process undertaken by the distribution businesses to design Tariff Structure Statements for the 2021-26 regulatory control period. Engagement is a necessary first step in designing tariffs that are consumer focused. The distribution businesses embarked on a consultation process with a wide and varied range of stakeholders including groups of customers, customer advocates and retailers. We understand that it was through this engagement that a simple residential Time of Use tariff (ToU), with peak pricing between 3 pm and 9 pm, was developed by all distribution businesses.

DELWP encourages the Australian Energy Regulator (AER) to have regard to the views of consumers and other stakeholders expressed through this process. We also encourage distribution businesses to maintain this consumer-focused approach in the implementation of these tariffs and associated complementary measures through 2021-26.

Introducing targeted ToU tariffs from 2021 supports the energy system's transition to a decarbonised, decentralised grid. As our energy system transitions to more decentralised renewable energy generation, and widespread electric Vehicle (EV) uptake, flat tariffs are no longer the most effective or fairest means of recovering the costs of providing electricity.

The Victorian Government is broadly supportive of the approach to introducing ToU tariffs proposed by the distribution businesses, with the following amendments:

- that customers with an EV charger at their premises be assigned to the new ToU tariff without the option to opt-out to a flat tariff; and
- that customers who install rooftop solar in AusNet Services' distribution network should have the option to opt-out to a flat tariff if they choose.

Distribution businesses, energy retailers and the Victorian Government will need to work together to support consumers in transitioning to these new tariffs. It will be essential to provide tailored clear and comprehensive communications. This will need to be partnered with other customer support to help reduce energy bills by shifting when they use certain appliances; enhance energy efficiency opportunities; and other services that improve a consumer's understanding of what is right for them.

Energy affordability is a key priority for the Victorian Government, both in the short and long term. The cost of new network infrastructure investment is largely driven by increases in peak demand and recovered over a long lifetime (up to 30 years). Therefore, it is important to transition to network tariffs

that will help to use existing infrastructure more efficiently and most importantly, minimise the need for additional future investment.

The expected future uptake of EVs provides an important opportunity to ensure that effective price signals are in place to avoid locking in higher infrastructure costs that would be recovered from all consumers over coming decades. Based on AEMO forecasts, there is the potential for the number of electric vehicles in Victoria to increase from approximately 3,500 in 2020-21 to approximately 56,000 by 2025-26 under a Central Case scenario or up to 220,000 under its Step Change scenario. If poorly managed, the integration of EVs could drive a rapid increase in network capacity investment to meet growth in peak demand. Providing price signals and incentives for customers to charge outside peak demand periods can benefit both EV owners and all electricity consumers. DELWP proposes that for these reasons, customers with EV chargers installed at their premises should be mandatorily assigned to a ToU tariff, with no option of reverting to a flat tariff.

The proposed targeted introduction of ToU tariffs is a foundational reform that paves the way for the grid of the future. Simple, ToU tariffs can provide appropriate price signals to encourage solar customers to minimise network demand at peak periods and incentivise self-consumption of their solar generation. Providing customers with choice and the ability to opt-out of ToU tariffs is important for equity and consistency across distribution networks. DELWP proposes that for these reasons, AusNet Services' solar customers should also have the option of reverting to a flat tariff if they choose to do so. Similarly, it is encouraging to see that all distribution businesses have retained at least one opt-out non-demand tariff for medium business customers, retaining choice for these customers, including community sporting clubs.

I look forward to continued engagement with the AER as this process progresses. If you would like to discuss any of the issues raised in this submission further, please contact Ralph Griffiths, Executive Director, Energy Strategy at on [redacted] [redacted] [redacted] or [redacted]

Yours sincerely

[redacted signature]

Anthea Harris
Deputy Secretary, Energy
Department of Environment, Land, Water and Planning

29 / 05 / 2020