

# Powercor Revised Proposed Tariff Structure Statement 2017–2020 Overview Paper



# At Powercor, our vision is connecting for a brighter future

**We are focused on providing our customers with outstanding value for money by maximising the efficiency of our operations, without compromising network safety and reliability.**

Network tariff reform is one element of our broader demand management strategy which supports our vision.

From January 2017, we are proposing to offer our customers a cost reflective tariff. **Cost reflective tariffs ensure our customers are charged in a fair way, reduce the need for us to build more infrastructure, and lower electricity costs for our customers over the long term.**

For our residential, and small and medium business customers, **our cost reflective tariffs structure will include a maximum demand charge.** Under these tariffs, how much you pay for using our electricity distribution network will increasingly depend on how and when you use our network.

Our customers can reduce their electricity usage at maximum demand times by spreading out their electricity usage.

By reducing maximum demand over time, we can minimise the need to build additional infrastructure that would only be used on a few very hot days each year. At the moment, 10 per cent of our network gets used less than two days each year.

Over the longer term, we aim to continue to reduce the cost of running our network, and we remain committed to keeping the distribution network component of your electricity bill as low as possible.

**We are not making any more money by introducing cost reflective tariffs, however it means your electricity bill might change, depending on how and when you use electricity.**



## Powercor Network statistics

Network route line length:	67,340km
Network area:	145,651sq km
Customer numbers:	777,161
Customer density:	11.54c/km
Zone substation transformers:	140
Distribution transformers:	84,249
Poles:	561,920
Underground lines:	12.6%
Network reliability:	99.97%

(As at 31 December 2015)

## Contents

Our business	02	Transitioning to cost	
Network tariff reform	03	reflective network tariffs	11
Our proposed network tariffs	04	Network tariff reform for	
Cost reflective network tariffs	05	large electricity users	12
Our customer, retailer and			
stakeholder engagement	07		

# Message from the CEO

---

Dear stakeholder,

**The way Victorian households and businesses use energy is changing as customers continue to make choices that enable them to find the best energy prices, improve their energy efficiency, and generate and store their own electricity.**

These customer choices require us to design and build our electricity network so that we continue to deliver the safe, reliable and affordable electricity supply you expect in a way that meets your evolving needs today and into the future.

Customer choice has also driven ongoing discussion about electricity pricing and the need for network tariff reform.

The good news is that Victorians already pay the lowest network costs in Australia. The introduction of more cost reflective tariffs will drive better efficiencies, ensure fairness and maintain affordability for our customers.

Our revised proposed Tariff Structure Statement outlines the changes we have made to our tariff structures, including the introduction of maximum demand tariffs, and transition arrangements. These changes reflect feedback from our customers and also take into account the Victorian Government's decision in December 2015 that residential and small business customers should have the choice to opt in to cost reflective tariff structures.

We believe that the introduction of cost reflective tariff structures encourages investment in energy efficient household appliances; embedded generation and storage; and greater electricity use outside of the maximum demand period.

Our view is that cost reflective tariff structures should better reflect customer needs so as to ensure efficient and targeted investment in building smarter, more responsive and resilient networks.

I want to take this opportunity to thank our customers, retailers and stakeholders who participated in our engagement program. Our commitment is to keep talking to you about tariff reform and other issues that affect your electricity supply and energy choices.

Finally, I encourage you to participate in the Australian Energy Regulator's independent consultation on our revised proposed Tariff Structure Statement.

Thank you again for your support throughout this process.



**Tim Rourke**  
Chief Executive Officer



# Our business

## Who we are

Powercor is the most efficient and reliable regional and rural electricity network in Australia. As one of Victoria's five privately owned electricity distributors, we own and manage assets that deliver electricity to more than 777,000 homes and businesses across Melbourne's outer western suburbs and central and western Victoria.

We make a substantial contribution to the State's economic development – powering existing businesses and growth across the communities in which we operate.

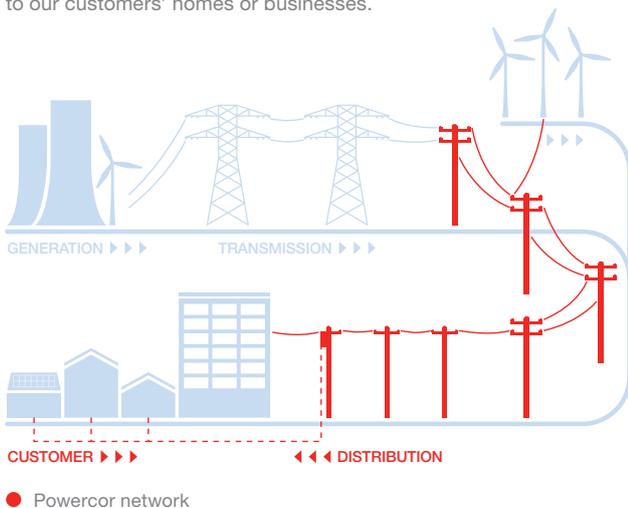
Our reliability performance has been achieved without compromising our record of being one of the most cost-effective distributors of electricity in the National Electricity Market. Powercor customers pay amongst the lowest distribution network costs in Australia, and Victorians pay the lowest distribution network charges in the country.

## Our responsibility

We are responsible for maintaining distribution network safety and reliability, along with planning and designing network extensions and upgrades to meet our customers' current and future electricity needs. We operate the network on a day-to-day basis, connecting new customers, large and small, and we provide metering services.

### Transporting electricity to your place

Network charges cover the cost of transporting electricity from the generator through the transmission and distribution networks to our customers' homes or businesses.



Network charges cover the cost of transporting electricity from the generator through the transmission and distribution networks to our customers' homes or businesses. Metering charges cover the cost of the meter and meter data services. We pass network and metering charges on to electricity retailers, who pass them on to our customers via electricity bills.

In general, the electricity bill our customers receive from their retailer does not distinguish between network charges, metering charges and other charges.

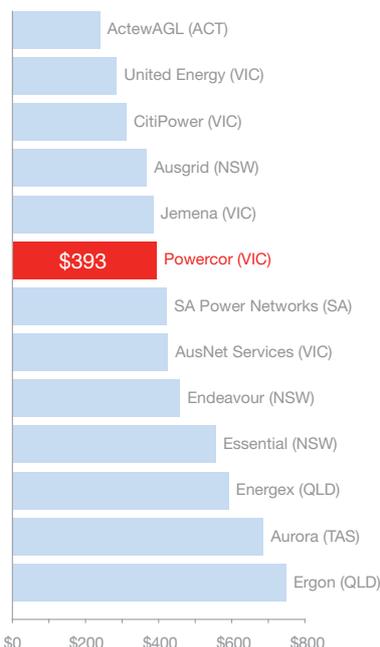
## Delivering affordable pricing outcomes

Powercor is a regulated business. Our revenue is determined by the Australian Energy Regulator (AER) in a regulatory determination process which takes place every five years.

Our carefully considered 2016–2020 regulatory proposal (submitted to the AER in April 2015, and revised in January 2016 to take into account the AER's preliminary determination) reflects the right balance between safety, reliability, growth and affordability. We will continue to meet our regulated service standards and obligations while minimising price impacts on our customers and ensuring we do not seek more revenue than is required to run our business.

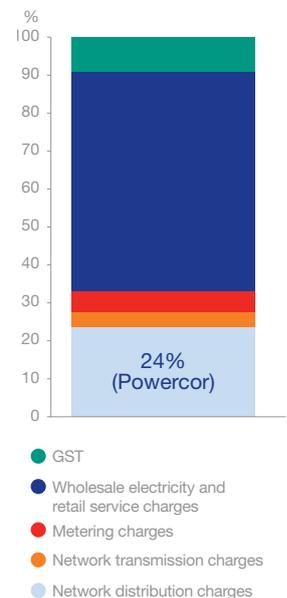
Our goal is to keep prices down and reliability stable.

### How we compare – Distribution charges across Australia (2016 dollars)



Source: Powercor analysis 2016

Today our network distribution charges are \$393 or 24% of the average household electricity bill which is \$1,653



Source: Powercor analysis 2016

# Network tariff reform

## Our customers are changing the way they use electricity

The way in which Victorian households and businesses use electricity is changing, with customers making choices that enable them to manage the cost of their bills and lower their carbon footprint by:

- Taking advantage of energy-efficient appliances to reduce commercial and domestic energy use
- Installing solar photovoltaic (PV) panels, which increase the amount of electricity generation in our network
- Increased adoption of embedded generation solutions by our business customers to help meet their own electricity needs.

These customer choices require us to continually design, build and operate our electricity distribution network to meet changing electricity usage patterns.

## Why we are changing our network tariff structures

We are changing our tariff structure in response to amendments made to the National Electricity Rules in December 2014. The amendments include new distribution network pricing arrangements that promote cost reflective network tariffs.

Our cost reflective network tariffs will encourage customers to minimise their use of electricity at maximum demand times by spreading out their electricity usage. Over the long term, this will minimise the need to build more infrastructure. This will result in lower network charges for our customers.

Our network tariff structures are also changing to reflect recent Victorian Government policy. These changes include the requirement to offer our residential and small business customers a choice between alternative network tariff structures.

## We will continue to respond to the changing environment

Tariff reform is one element of our broader demand management strategy. Other initiatives include:

- Smart meters – providing a range of operational benefits and enabling the transition to cost reflective tariffs. They provide real time data that helps customers take more control of their energy use to get better deals and participate in new markets. They also help us improve our fault response and service quality, enable remote reading and connection services. We are the only Australian electricity distributor using the ‘last gasp’ function in smart meters to send a meter outage notification directly to customers who have registered for our SMS notification service, and via our website.
- Smart grid – implementing a system and process which enables our network to automatically restore supply to our customers in under one minute when there is a fault.
- Grid-scale battery storage – using battery storage in certain areas of our network to help reduce stress on the network on peak days and potentially reduce outages.
- Residential battery storage – understanding how battery storage at the residential level can help increase renewable penetration.
- Solar – installing solar panels on four of our depots and using our own experience to help our customers make better decisions.
- Virtual net metering trial – participating in a project run by the University of Technology Sydney, which is developing a methodology for valuing local generation where electricity is generated at one site and used at another site nearby.

We will continue our ongoing commitment to find innovative ways to drive down network charges, and work with our customers and stakeholders throughout the process.

# Our proposed network tariffs

Network charges cover the cost of transporting electricity to customers' homes or businesses. Electricity retailers apply these charges to bills, which do not usually distinguish between network charges and other charges.

## Our approach

To design our proposed tariff structure and transition path, we looked at the electricity usage of our Powercor customers. Through this analysis, a range of tariff reform options were considered. Our proposed tariff structure and transition arrangements reflect the results of our customer analysis and findings from consultation with our customers, retailers and other stakeholders.

Our outcome represents a carefully considered balance and structure, which we reached by consulting with our customers, retailers and stakeholders.

## Proposed network tariff structure

Our proposed network tariffs for residential and small business customers for the 2017–2020 period include a flat and flexible tariff, as well as our new cost reflective network tariff. We also propose to allow customers assigned to existing closed network tariffs to remain on those tariffs.

The structure of our flat and flexible tariffs (also referred to as time-of-use tariffs) include:

- Fixed charge – covers the fixed cost of supplying electricity to customers' homes or businesses
- Usage charge – relates to how much electricity our customers have used.

Our proposed cost reflective network tariff structure will also include a maximum demand charge. Controlled load tariffs will continue to be offered and can be used in conjunction with flat or cost reflective tariffs.

Customers will continue to be charged a fixed fee for metering services.

## Our flat tariff

Our proposed flat tariff includes both fixed charge and usage charge components. The usage charge component of our flat tariff is constant – or flat – throughout the year.

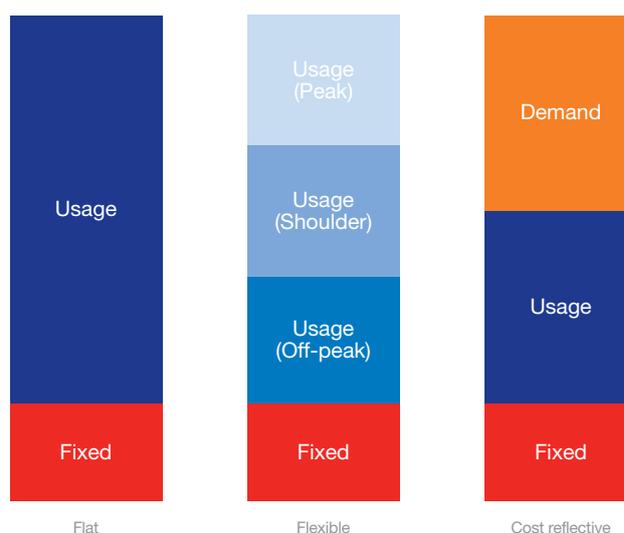
Our flat tariff will remain open for residential and small business customers during the 2017–2020 period.

## Our flexible tariff

Similar to our flat tariff, our flexible tariff includes both fixed charge and usage charge components. The usage charge component of our flexible tariff, however, is separated into peak, shoulder, and off-peak prices. The peak, shoulder, and off-peak prices may also vary between our summer and non-summer periods.

Our flexible tariff will remain open for residential customers during the 2017–2020 period.

### Overview of tariff structures



Source: Powercor analysis 2016

# Cost reflective network tariffs

We are proposing to offer our residential and small business customers the choice of opting in to a cost reflective tariff from 1 January 2017. Medium business customers will be transitioned to a cost reflective tariff by 2019. This approach will help to continue to drive network costs down in the future.

The introduction of cost reflective tariffs encourages our customers to change their behaviour and spread out their electricity demand by minimising the use of household electrical appliances during maximum demand periods. This will reduce the need for us to build more electricity distribution infrastructure, which will help to lower electricity costs for our customers over the longer term.

## Proposed cost reflective network tariff structure

Our proposed cost reflective network tariff structure will include a maximum demand charge, in addition to fixed and usage charge components.

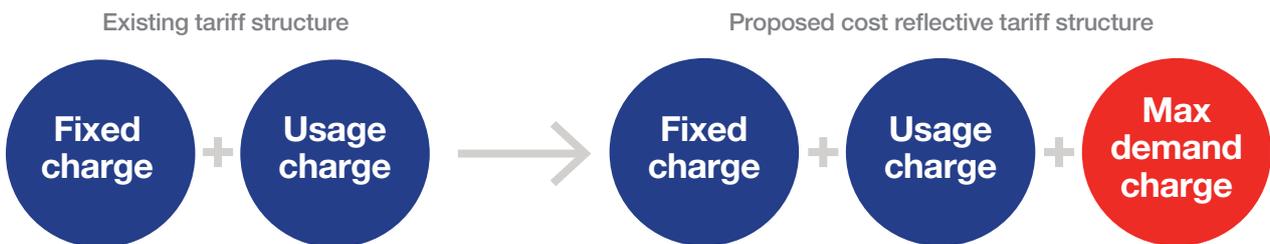
## Maximum demand

**Our network is built and maintained to meet our customers' total maximum demand for electricity at any point in time.** When maximum demand increases, we need to make significant investment in the network to maintain the reliability of our service for customers.

The maximum demand period usually occurs from 3pm–9pm each day for residential customers and 10am–6pm for small and medium businesses. The highest demand occurs on the hottest days of the year, when customers use air conditioners and other electrical appliances at the same time.

Although historically we only have a few days each year where we hit our maximum demand, to ensure security of supply for these hot days, we need to invest more into our network to ensure we have the capacity to supply electricity to all our customers.

### Moving to cost reflective tariffs



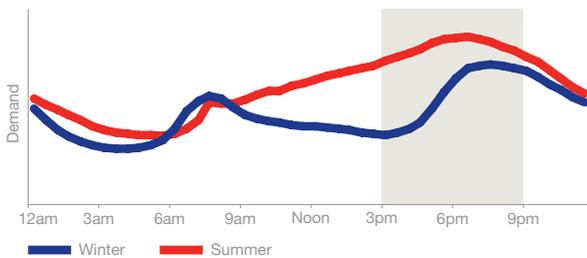
## How we will measure the maximum demand charge

The maximum demand charge is a \$ per kilowatt charge. The maximum kilowatt is determined by measuring the maximum amount of electricity used in a 30 minute interval between the proposed times of 3pm–9pm for residential customers and 10am–6pm for small and medium businesses over the space of one month.

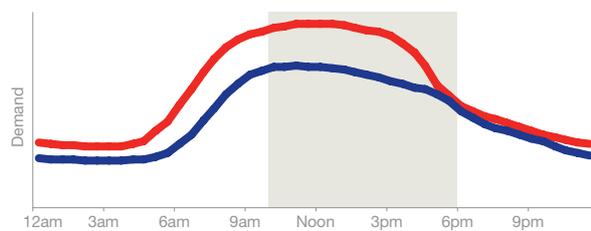
Maximum demand will not be measured on weekends and public holidays. The \$ per kilowatt charge will vary between summer and the cooler months, as maximum demand is higher in summer.

### Maximum demand profile for residential customers and small and medium businesses

#### Residential



#### Small and medium businesses



Source: Powercor analysis 2015

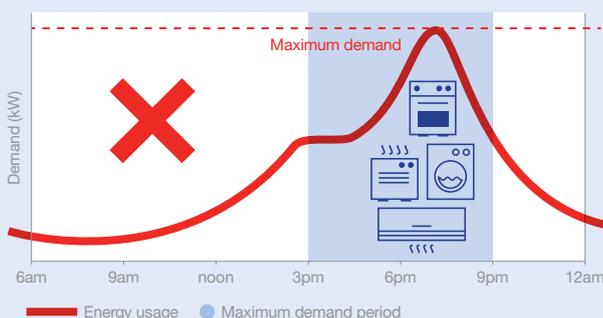
## How residential customers can reduce their maximum demand

**Spreading out electricity usage will reduce the overall demand on the distribution network. Reducing the need to build network infrastructure will result in lower costs for our customers over the longer term.**

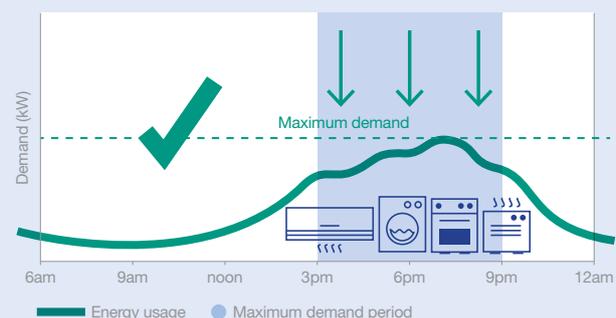
To reduce maximum demand our customers can:

- Spread out electricity usage by avoiding the use of multiple appliances simultaneously
- Choose to use household appliances such as dishwashers, washing machines and clothes dryers out of the maximum demand period.

### Typical energy use during peak period



### Spreading energy use during peak periods



# Our customer, retailer and stakeholder engagement

Engagement is core to the strategic priorities of our business. We regularly consult and seek feedback to help us shape our future plans and business decisions.

**In 2013 we commenced our stakeholder engagement program for the 2016–2020 regulatory control period. We undertook a research phase which found almost 60 per cent of our customers did not know who we were, what our role was or what services we provide.**

We responded by launching [www.talkingelectricity.com.au](http://www.talkingelectricity.com.au) and delivering information to each of our customers via a mail out.

In 2014 we began engaging our customers around network tariff reform. We reached out to our customers via focus groups, online surveys and our publications.

In 2015 we used a range of consultation mechanisms to give our customers, retailers and stakeholders the opportunity to have their say on our proposed changes to network tariff structures.

We held face-to-face meetings and forums, engaged an independent market research company to deliver us insights, and communicated with our customers, retailers and stakeholders via our Talking Electricity website and e-news.

The feedback we gathered has helped to shape our proposed cost reflective tariffs structure for the 2017–2020 period.

Following the Victorian Government's decision in December 2015 that residential and small business customers should have the choice to opt in to cost reflective tariff structures, we engaged with our retailers and stakeholders, including our customer consultative committee members, to consult on our revised proposed tariff structures and to incorporate their feedback into our revised tariff structures.

## Key insights

### Effective communication and engagement is critical

Changes to tariff structures need to be transparent, extensively communicated and well understood by customers and key decision makers. Effective communication and engagement is critical.

### We want increased 'partnering' and infrastructure investment

Large electricity users felt there was a need for increased 'partnering' and that Powercor could take a lead role in asset and infrastructure investment.

### Easy to understand

The new tariff structure is as easy to understand as the current structure.

### We want to be in control

Our residential customers want to be in control of their own electricity usage, when and how they use electricity.

### We want to save money

They are willing to change electricity usage behaviour if they can save money and limit use of appliances at maximum demand times.

### No appetite to pay more for additional build on the network

There is no appetite among our small to medium business customers to pay more for any additional build on the network to support higher peak period usage.

### It will be challenging to change

It will be challenging for our customers to change consumption behaviour to reduce network demand, due to their reliance on electricity at particular times.

---

## What we did in 2014

### Our engagement activities included:

- An online customer survey run by Colmar Brunton
- An online customer survey run by Nature Research and Deloitte Access Economics
- Residential customer focus groups conducted by Colmar Brunton
- Small to medium business and large electricity user interviews conducted by Colmar Brunton
- Feedback prompts in our Directions and Priorities Consultation Paper.

2014



## What you told us about...

### The current tariff structure

- Limited in its ability to reduce peak demand, incentivise energy efficiency and reduce power at critical periods
- It is unfair and results in consumers paying more
- Not economical to have a flat rate
- Too confusing.

### Consumption based tariffs

- There is little appetite to pay more for additional build on the network to support higher peak period usage
- Unwilling to change consumption behaviour to reduce network demand during high peak periods.

### Location based tariffs

- Residential customers and small to medium businesses are willing to spread the cost so those in areas that need additional upgrades are not faced with higher power bills
- Large electricity users said they lack fairness, disadvantage those in remote areas and present difficulties in stable cost forecasting.

### Proposed introduction of a maximum demand tariff

- Help incentivise and affect the adoption of technologies to assist with the smart and efficient use of energy
- Must be transparent, well understood by customers and accompanied by an effective communication and engagement campaign
- Customers will not have to subsidise others who use large amounts of electricity.

### We also asked you about...

#### Critical peak rebates if electricity usage is reduced on the hottest days of the year

- A majority of residential customers supported this rebate
- The top two preferred options for residential customers were to turn off their washing machine or air conditioner during the peak period.

#### Rebates for residential customers if they allow an electricity provider to remotely control appliances on the hottest days of the year

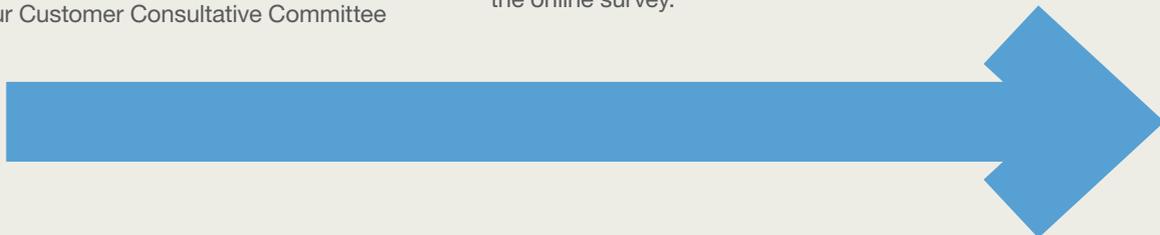
- The majority of customers said they like to be in control of their own electricity usage
- Customers with pool pumps supported a rebate for an electricity provider to remotely control them
- There was limited support for an electricity provider to remotely control air conditioners.

# What we did in 2015

## Our engagement activities included:

- Online survey for residential customers run by Nature Research
- Retailer forums held in July 2015
- Attended industry forums to explain tariff changes to large energy users
- Meetings held with consumer advocates
- Bilateral meetings held with retailers' representatives, consumer advocates and key stakeholders
- Engaged with our Customer Consultative Committee
- Updated the Talking Electricity website and used the e-news to share information and update on our tariff reform activities
- Included tariff reform articles in our newsletters to retailers, registered electrical contractors and large energy users
- Developed tariff reform fact sheets
- Launched a social media campaign to promote the online survey.

# 2015



# What you told us about...

## Your electricity usage

- You like to be in control of your electricity usage
- It will be hard to avoid usage at the peak time
- Dairy farmers cannot change when they milk cows and therefore their time of peak demand
- There is a willingness to change behaviour by limiting the use of washing machines and dishwashers to save money on electricity bills.

## Peak demand period

- There is support for the introduction of a peak demand charge from 3pm–9pm on weekdays, but not on weekends and public holidays.

## Transition

- The transition to a demand tariff should be quicker.

## Consistency

- Consistency across all distributors on tariff structures will help retail customers better understand tariff structures
- The delivery of consistent messaging throughout the tariff reform process will lessen confusion.

“The transition to a demand tariff should be quicker”

“There is a willingness to change behaviour by limiting the use of washing machines and dishwashers to save money on electricity bills”

“It will be hard to avoid usage at the peak time”

“Consistency across all distributors on tariff structures will help retail customers better understand tariff structures”

# What we did in 2016

Have **your say** on future tariff structures

Talking Electricity website

Consulted with our retailers and stakeholders on our revised proposal to change our network tariffs and introduce cost reflective tariffs.



Bilateral meetings



Forums



Customer consultative committee

# 2016



“Whilst commonality across Victorian distributors in the maximum demand period for small business customers was a preference for retailers, they acknowledged that each distribution company has a different maximum demand profile”

“Stakeholders have requested our continued assistance, particularly following the AER approval of our TSS and 2017 network tariffs, so that they can help their customers understand the changes”

“Supportive of us proposing a threshold of 60MWh rather than 40MWh for the mandatory reassignment of medium business customers to cost reflective tariffs”

“The Victorian electricity distributors’ Stakeholder Forum on network tariff reform was well received by participants, particularly as it meant that participants only needed to attend one forum to understand what all businesses were proposing”

## What you told us

“Stakeholders want us to monitor the impacts of network tariff reform and be kept informed about the take-up of the opt-in cost reflective tariffs”

“Victorian Government informed us that residential and small business customers can opt in to and opt out of cost reflective tariffs during the 2017 to 2020 period”

“Retailers were supportive of us retaining the same cost reflective tariff structure in our revised proposed tariff structure statement that we included in our proposed tariff structure statement, submitted to the AER in September 2015”

“Keep engaging with retailers on tariff-related matters on an ongoing basis”

### How we responded to your feedback

- We are working with the other Victorian distribution companies to ensure communication with our customers, retailers and stakeholders is clear and consistent throughout the network tariff reform process
- All Victorian distribution companies have agreed on one maximum demand period for residential customers, 3pm–9pm on workdays
- The maximum demand charge will only apply on weekdays, not on weekends and public holidays
- We are not introducing location based tariffs or rebates as part of our proposed cost reflective tariffs structure
- We will continue to engage with our customers, retailers and stakeholders on network tariff reform and the implementation of approved network tariffs.

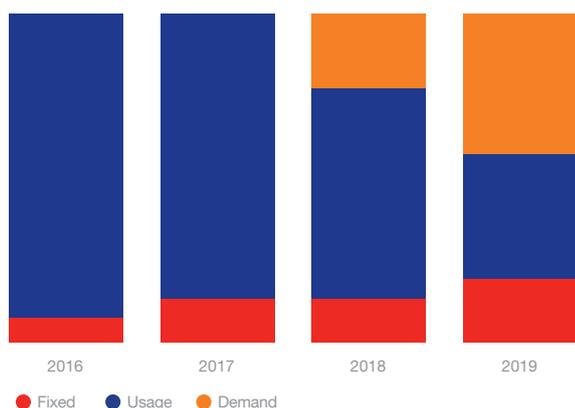
# Transitioning to cost reflective network tariffs

## Understanding our new tariff structure

Our new tariff structure and transition process has been informed by engaging with our customers, retailers and stakeholders. We have analysed customer impacts and ensured we reflect our customers' needs, while delivering efficient and targeted investment in building a smarter and more resilient network.

### Transition to cost reflective tariffs for medium businesses

The demand component will be completely phased in by 2019



Source: Powercor analysis 2016

## Our proposed transition to cost reflective tariffs

Our proposed approach to transition to cost reflective tariffs differs for our residential, small and medium business customers. Our small business customers are those consuming less than 60MWh over the previous year. Our medium business customers are those consuming greater than 60MWh, and with maximum demand less than 120kW over the previous year.

For our residential and small business customers, we are proposing a transition to cost reflective tariffs via customers opting in through their retailer.

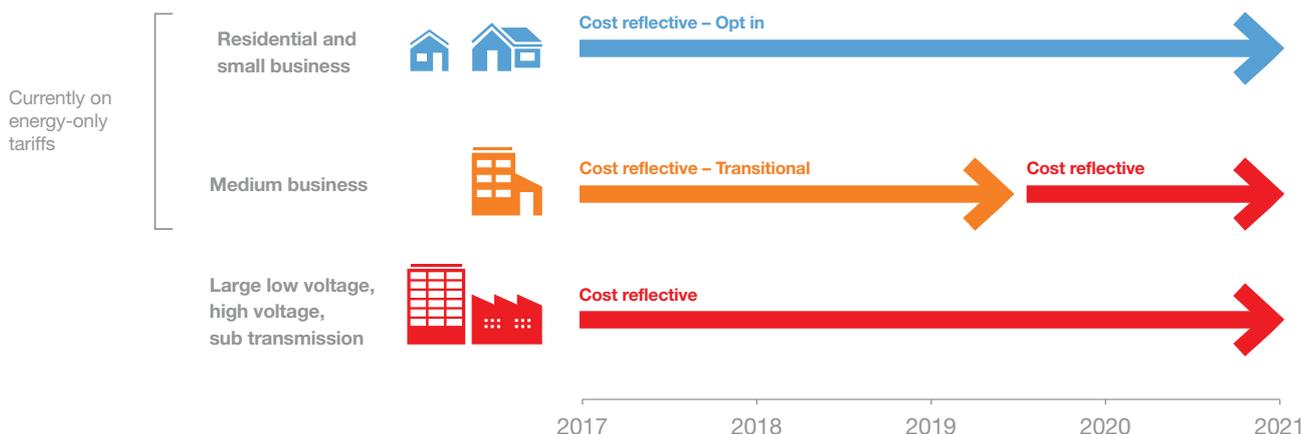
For our medium business customers, we are proposing a transition over a three-year period. From 1 January 2017, we will assign all medium business customers to a common tariff with a fixed charge, peak usage charge, off-peak usage charge and zero demand charge. This demand charge will increase from 1 January 2018. At the same time, we will reduce the peak usage charge until our fully cost reflective tariff structure applies from 1 January 2019. This transition approach will give our medium business customers time to understand the tariff structure changes and to become better equipped to respond.

## Assisting with the transition to cost reflective network tariffs

We are developing a portal which will allow customers to view their usage patterns online. This will be available in 2016.

Information will be available over the coming months on our website, [www.talkingelectricity.com.au](http://www.talkingelectricity.com.au).

### Transition to cost reflective tariffs



## We encourage our customers, retailers and stakeholders to take part in the AER Tariff Structure Statement determination process.

### Past

- **25 September 2015** – Powercor submitted our proposed Tariff Structure Statement (TSS) to the AER and the consultation process began:
  - AER reviewed the proposed TSS for compliance with the National Electricity Rules
  - AER published the proposed TSS and issued an invitation for written submissions
  - AER published an issues paper
  - AER asked for written submissions on the issues paper and extended an invitation to attend a public forum
- **22 February 2016** – AER published the draft determination on the proposed Tariff Structure Statement

### Now

- **29 April 2016** – Powercor submits its revised proposed Tariff Structure Statement to the AER

### Future

- **29 July 2016** – AER issues its final determination on the revised proposed Tariff Structure Statement
- **By 30 September 2016** – Powercor submits its 2017 annual pricing proposal to the AER. The annual pricing proposal contains the proposed network tariffs for 2017
- **Mid-November 2016** – AER publishes its decision on 2017 annual pricing proposal
- **1 January 2017** – New network tariffs for 2017 take effect.

To keep up-to-date with future AER consultation activities, network tariff reform and key Powercor initiatives visit [www.talkingelectricity.com.au](http://www.talkingelectricity.com.au) and consider subscribing to our e-news.

For more information about distribution network tariff reform visit: [www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements](http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements)

For details of the AER's tariff structure statement and network pricing determinations visit: <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs>

## Network tariff reform for large electricity users

### Defining large electricity users

Our large electricity users are commercial and industrial customers who have a supply capacity of 120kW or more.

### Tariff structure

In 2016 we made refinements to tariff structures for our large electricity users. The 2016 structure includes: a fixed charge, peak usage charge, off-peak usage charge and a 12-month rolling maximum kVA demand charge. We are not proposing to make any further changes to network tariff structures over the 2017–2020 period.

### The conversation will continue...

We will continue to work with large electricity users and retailers on network tariff reform. Over the coming period, we may conduct critical peak pricing or critical peak rebate trials, which will encourage customers to reduce their electricity usage during peak periods. We will keep you informed about trials we are planning to undertake via our Talking Electricity e-news and website, [www.talkingelectricity.com.au](http://www.talkingelectricity.com.au).

