LATROBE CITY COUNCIL

Latrobe City Council Submission to:

Payment in Lieu of Rates Scheme for Energy Storage Systems.

July 2025



Payment in Lieu of Rates Scheme for Energy Storage Systems:

Introduction

Latrobe City Council welcomes the opportunity to contribute to the Victorian State Government's consultation on the proposed Payment in Lieu of Rates (PILOR) scheme for energy storage systems. As a municipality with extensive experience operating under the PILOR framework for energy generation infrastructure, Council offers valuable insights into the potential financial implications of extending this model to energy storage technologies.

Latrobe City is strategically positioned near major grid access points at the former Hazelwood power station, Yallourn, and Loy Yang A and B power stations. It has also been identified as one of Victoria's seven proposed Renewable Energy Zones in VicGrid's *Draft Transmission Plan*. Given this strategic context, it is highly likely that our municipality will host future large-scale energy storage developments. As a result, the proposed PILOR framework will have direct implications for the financial sustainability of our Council. This makes our submission especially relevant, as it puts forward a series of recommendations aimed at ensuring a balanced and fair framework that serves the interests of all stakeholders.

A key recommendation from Council is that the PILOR system include a clear clause specifying when payments should cease. Specifically, PILOR payments should continue until the land is returned and can be repurposed for its highest and best use. The former Hazlewood power station and mine site illustrates the importance of this approach: following the mine's closure in 2017, PILOR payments ceased immediately, despite the land remaining unusable due to the need for extensive rehabilitation. To avoid such scenarios in the future, Council proposes that energy storage proponents remain responsible for PILOR payments until the land is fully rehabilitated and capable of being repurposed.

Additionally, Council strongly advocates for a clear, legislated definition of energy storage systems, distinct from electricity generation, and for the development of robust eligibility criteria to guide inclusion under the PILOR model. Without such clarity, local governments risk being left to negotiate definitions and rates on a case-by-case basis, leading to inconsistency, administrative burden, and financial uncertainty.

A fundamental principle guiding Council's position is the need for fairness and revenue predictability. Any land used for energy storage infrastructure should be rated in a way that reflects its highest and best use, consistent with how other industrial or commercial land is treated. The introduction of PILOR payments must not leave councils financially worse off than they would be under traditional rating methodologies. This includes ensuring that land occupied by storage systems receives fair compensation through a fixed, transparent payment structure, regardless of utilisation levels or asset performance.

Furthermore, Council believes that energy generation and storage components of hybrid systems should be rated separately, in recognition of their distinct operational roles. It also recommends that the scale of PILOR payments be based on the physical footprint of the project, rather than installed megawatt (MW) capacity, to ensure equitable and practical valuation across different sites and technologies.

Ultimately, Council supports a PILOR model that is simple, consistent, and enforceable balancing the interests of local governments, developers, communities, and energy consumers. A well-designed framework will support investment in renewable energy infrastructure while ensuring that host councils are not left to carry the financial burden of facilitating the energy transition.

Submission

How should storage technologies be defined? By what characteristics should storage technologies be distinguished from electricity generators?

Council recommends that the Victorian State Government establish a clear and consistent definition of energy storage systems to ensure uniform application of the PILOR scheme across all local government areas. This will help avoid placing the burden of interpretation and negotiation on individual councils and project developers.

As part of this definition, Council strongly encourages the Victorian State Government to develop and publish detailed eligibility criteria outlining which projects will and will not be included under the PILOR scheme. It is essential that these criteria are robust, legislated, and capable of clearly distinguishing energy storage systems from traditional batteries.

Specifically, the definition should apply only to large-scale battery storage systems whose sole function is to support the electricity grid by storing and discharging energy. Council holds the view that installations in residential or commercial settings such as battery systems for individual homes or businesses should not be considered eligible under the PILOR framework. These installations differ significantly in scale, function, and economic impact, and therefore should remain subject to the traditional capital- improved valuation rating methodology.

This clarity is necessary because the PILOR scheme, as currently proposed, is expected to yield lower rate revenue than the existing capital-improved value model applied to residential and commercial properties.

A well-defined and targeted application of the scheme will help protect the financial sustainability of local governments while supporting the Victorian State Governments objective to encourage investment in renewable energy projects.

How can the PILOR framework and arbitrator methodology for energy storage systems be designed to:

a - balance the interests of local councils, communities, storage developers and energy consumers?

Council welcomes an effective and balanced approach for all stakeholders, including local councils, communities, storage developers, and energy consumers and would therefore encourage the Victorian State Government to establish a fair and consistent base rate for payments that applies uniformly across all local government areas.

Council strongly opposes a model in which PILOR payments are adjusted downward based on the financial or technical performance of individual storage assets. For instance, under a traditional capital improved value rating system, rate liability is not reduced simply because a commercial property is underperforming. Similarly, allowing lower PILOR payments for poorly performing energy storage units would set a problematic precedent and undermine the equity of the system.

By applying a standardised base rate, the PILOR framework can ensure transparency, manage stakeholder expectations, and provide local governments with a predictable and stable revenue stream. This approach would also support planning certainty for proponents and uphold the broader public interest by fairly contributing to the cost of local infrastructure and services that support the community.

Council recommends that the PILOR system include a clause specifying when PILOR payments should cease. Specifically, payments should continue until the land is returned and can be repurposed for its highest and best use. A clear example of this issue is the former Hazlewood Power station and mine site: following the mine’s closure in 2017, PILOR payments stopped immediately, even though the land remains unusable until rehabilitation is complete. To prevent similar situations, Council proposes that energy storage proponents remain responsible for PILOR payments until the land is fully rehabilitated and available for its highest and best use.

2c - balance the benefits of a highly customised methodology with those of simplicity and ease of use by both parties?

As outlined in previous responses, Council strongly encourages the Victorian State Government to adopt a standardised approach by setting a clear base payment and publicly releasing a defined set of eligibility criteria for energy storage systems under the PILOR framework.

While a highly customised methodology may offer tailored solutions for individual projects, it introduces complexity, increases administrative burden, and creates the potential for inconsistency across local government areas. A simplified and transparent framework will enhance predictability for both councils and developers, reduce the need for case-by-case negotiations, and ensure equitable treatment across the state.

3 - Should the PILOR arbitrator methodology for energy storage systems use MW capacity as the metric to guide scale of payments or should another metric, be used?

e.g. footprint of project

Council recommends that the Victorian State Government base PILOR payments for energy storage systems on the physical footprint of the project, rather than on installed megawatt (MW) capacity. This approach better reflects the land use and associated demand on local infrastructure and services, and more accurately aligns with traditional rating methodologies.

Using project footprint as the primary metric will help ensure that councils are not financially disadvantaged by the implementation of the PILOR framework. It also supports fairness and transparency by linking payments to tangible land impacts, rather than fluctuating or technical performance measures. This approach strikes a better balance between the interests of councils, developers, and communities, and contributes to a more stable and equitable revenue model.

4 - For hybrid energy systems, such as solar-battery projects, how should the generation and storage energy system be included under PILOR, giving consideration to the fixed charge and the variable charge (per MW) methodology, and the annual capacity factor?

Council recommends that hybrid energy systems such as solar paired with battery storage be assessed as two distinct components under the PILOR framework. Energy generation assets should continue to be rated under the existing PILOR methodology that currently applies to generation infrastructure. In contrast, the storage component should be assessed and rated separately, under a dedicated framework developed specifically for energy storage systems.

This separation recognises the fundamentally different functions and operational characteristics of generation and storage technologies. Maintaining this distinction will ensure consistency, transparency, and fairness in how hybrid systems are treated avoiding the risk of under- or over-valuing either component or support councils in managing the financial implications of hosting such infrastructure.

5 - How would discounts for storage systems with low utilisation (low-capacity factors) impact the predictability of revenue (for councils) and expenses (for owners of storage systems)? How are the benefits of these discounts best balanced with minimising uncertainty and volatility?

Council does not support the application of discounts based on utilisation or capacity factors for energy storage systems. Storage infrastructure, like any other commercial or industrial development, occupies land and draws upon local services and infrastructure regardless of its operational performance. As such, it should be subject to a fixed annual payment under the PILOR framework.

Introducing discounts based on low utilisation would undermine revenue predictability for councils, making long-term financial planning and service delivery more difficult. It would also create

unnecessary complexity and potential for dispute, as utilisation levels may fluctuate and be difficult to verify consistently.

To minimise uncertainty and volatility for both councils and developers, the PILOR framework should apply a clear, fixed annual charge to storage systems, similar to the treatment of other businesses and ratepayers. This approach ensures fairness, administrative simplicity, and stable revenue outcomes for local governments, while providing storage operators with clarity and consistency in their financial obligations.

Thank you for taking the time to consider the content of this submission, Should you require additional information of if you wish to discuss any of the matters raise please contact Shae Hasnen Council's Senior Strategy and Advocacy Advisor on Shae.Hansen@Latrobe.vic.gov.au or 0459 847 411.

Yours Sincerely



Steven Piasente

CEO