

2028-33 Pricing Methodology Consultation Paper

August 2026

Important notice

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Acknowledgement of Traditional Owners

We acknowledge and respect Victoria's Traditional Owners as the original custodians of Victoria's land and waters, their unique ability to care for Country and deep spiritual connection to it. We honour Elders past and present whose knowledge and wisdom has ensured the continuation of culture and traditional practices. We are committed to genuinely partnering and meaningfully engaging with Victoria's Traditional Owners and First Peoples to support the protection of Country, the maintenance of spiritual and cultural practices and their broader aspirations in the 21st century and beyond.

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How to participate in this consultation:

VicGrid invites written submissions from interested persons on the issues identified in this paper. To take part in the consultation:

- Upload a submission via Engage Victoria at <http://www.engage.vic.gov.au/pricing-methodology-paper-2028-33>
- Email a submission to tuos@vicgrid.com.au
- Send a written submission to VicGrid, GPO Box 1756, Melbourne VIC 3001

Submissions close at 11:59 pm (AEST) on Friday 30 October 2026.

Before making a submission, please read and take note of VicGrid's privacy collection statement at <https://engage.vic.gov.au/project/pricing-methodology-paper-2028-33/page/privacy-collection-statement>.

We have included questions throughout this consultation paper for your consideration when preparing a submission.

Please note, all submissions will be treated as public documents and will be published online unless clearly identified as being confidential. Submissions are encouraged to be made on a publicly available basis.

Submissions received after the closing date and time may not be acknowledged or considered in the design of the draft pricing methodology. Any late submission should be accompanied by additional information that may help VicGrid understand the implications of the submission not being considered.

1 Executive summary

Victoria's energy system is undergoing significant change. As coal-fired power stations retire, new renewable energy generation and battery storage are playing an increasingly important role in supplying electricity. At the same time, demand for electricity is expected to grow as homes, businesses, transport and industry electrify by switching from fossil fuels to electricity and as new large electricity users connect to the grid. These changes are reshaping how Victoria's transmission network is used and prompting a review of whether existing transmission pricing arrangements remain fit for purpose.

VicGrid is responsible for Victoria's transmission pricing framework and is developing a revised pricing methodology for the 2028-33 regulatory period. The pricing methodology determines how the costs of Victoria's shared transmission network are recovered from network users. It plays an important role in ensuring transmission costs are shared fairly, supporting efficient use of the network and helping maintain affordable electricity services for Victorian consumers.

This consultation paper is the first step in developing the new pricing methodology. It sets out a number of issues VicGrid has identified through its review of the current arrangements and presents potential options for feedback. The options outlined in this paper are not final decisions. VicGrid is seeking feedback before developing its draft 2028-33 pricing methodology for submission to the Australian Energy Regulator (AER) at the end of 2026.

The paper seeks feedback on five key areas:

- The potential introduction of peak and off-peak pricing for non-locational and common services charges
- How forecast data should be considered where historical customer data may no longer be representative
- Options to address the overstatement of Contract Agreed Maximum Demand (CAMD)
- The treatment of Energy Storage Systems (ESS) under the pricing framework
- Amendments required to reflect recent changes to the National Electricity Rules and regulatory requirements.

These issues are being considered as Victoria's energy system becomes more diverse and more complex, with increasing amounts of renewable generation, battery storage, electrification and large new electricity users.

The review is not about increasing the amount of revenue recovered through transmission charges. It is largely about whether the current framework remains the best way to share those costs and provide signals for efficient use of the network.

VicGrid welcomes feedback from customers, industry participants, consumer representatives and other interested stakeholders. Feedback received through this consultation will help shape the draft 2028-33 pricing methodology and ensure Victoria's transmission pricing framework remains fit for purpose as the energy system continues to evolve.

2 Background

Victoria's electricity system is undergoing significant change. Coal-fired power stations are progressively retiring and being replaced by renewable energy generation and battery storage. At the same time, electricity demand is expected to grow as homes, businesses, transport and industry increasingly electrify, and large new electricity users connect to the grid. Together, these changes are reshaping how Victoria's transmission network is used and creating an opportunity to review whether existing transmission pricing arrangements remain fit for purpose.

Transmission infrastructure plays a critical role in enabling this transition. It transports large volumes of electricity over long distances, connecting generation resources with consumers and supporting reliability across the broader National Electricity Market. As Victoria's generation mix changes, transmission infrastructure will continue to play an essential role in delivering affordable, reliable and secure electricity for Victorian households and businesses.

The role of transmission pricing

Transmission Use of System (TUoS) charges help fund Victoria's shared transmission network. They recover the costs of planning, developing, operating and maintaining the infrastructure that transports electricity across the state. These charges are paid by large customers connected directly to the transmission network and by electricity network distributors, which operate the poles and wires that deliver power to homes and businesses.

The pricing methodology sets out how transmission costs are shared across users of the network. Because these costs are ultimately reflected in electricity bills, it is important that the framework allocates costs fairly, supports efficient use of the network and can be implemented in a practical and transparent way.

Why review the current pricing methodology?

Victoria's current pricing arrangements were developed in a different market environment. Since then, the electricity system has changed significantly, with growth in renewable energy generation, battery storage, distributed energy resources and new large electricity users such as data centres and other energy-intensive industries. These changes are altering how the transmission network is used and raise important questions about whether the existing pricing arrangements remain fit for purpose.

This review provides an opportunity to assess whether the current framework remains fit for purpose and to consider whether targeted reforms are needed to support Victoria's changing energy system. Through this consultation, VicGrid is seeking stakeholder feedback on how transmission pricing arrangements can continue to support efficient network use, fair and transparent cost allocation, investment certainty and long-term affordability for consumers.

Purpose of this consultation

VicGrid intends to submit its draft 2028-33 pricing methodology to the AER by the end of 2026. Before doing so, VicGrid is seeking feedback from customers, industry participants, consumer representatives and other interested stakeholders on potential changes to the current pricing methodology.

This consultation paper outlines key issues and potential reform areas identified through VicGrid's preliminary review of the current pricing methodology. It seeks feedback on whether the current approach remains fit for purpose and on how transmission pricing arrangements can continue to support efficient network use, fair and transparent cost

allocation, investment certainty and long-term affordability. We seek your feedback on whether the issues raised in this paper are the most important reforms in light of the energy transition and the National Electricity Rules (NER) and if there are any other changes that could be considered.

Feedback received through this consultation will inform the development of VicGrid's draft 2028-33 pricing methodology.

VicGrid's role

VicGrid is responsible for planning and developing Victoria's shared transmission network and for administering Victoria's transmission pricing framework. VicGrid assumed transmission pricing responsibilities previously undertaken by AEMO in November 2025 and is now leading the development of the next pricing methodology for the 2028-33 regulatory period.

This consultation is the first stage of that process. It provides an opportunity to share technical, operational, commercial and consumer perspectives before VicGrid develops its draft pricing methodology to submit to the AER for assessment. Feedback will help ensure the framework continues to support a reliable, efficient and affordable transmission system while responding to the changing needs of Victoria's energy sector.

3 Areas for consultation

This consultation paper outlines the key issues being considered by VicGrid as part of its review and development of the 2028-33 pricing methodology.

The issues discussed in this paper represent potential reforms. This paper is designed to support genuine consultation by seeking stakeholder perspectives on whether the current pricing framework continues to achieve the objectives of efficiency, cost reflectivity and compliance with the NER in a rapidly evolving energy system. VicGrid has not reached any conclusions on the matters raised and remains committed to carefully considering all stakeholder feedback before submitting a draft 2028-33 pricing methodology to the AER.

As Victoria's transmission system continues to undergo significant change, driven by increasing renewable generation, growing energy storage deployment, electrification, and the connection of new large-scale loads such as data centres and other energy-intensive industries, it is important that transmission pricing arrangements remain fit-for-purpose and continue to provide efficient signals for network investment and utilisation. Stakeholder input will play a critical role in ensuring that the future pricing framework appropriately balances these objectives while supporting an orderly and cost-effective energy transition.

The key areas identified by VicGrid for consultation include:

1. **The approach to postage stamp pricing¹**, including the limitations of the current postage stamp pricing approach for non-locational and common services charges, and whether peak and off-peak pricing should be introduced. This would provide stronger price signals to encourage network use during lower-demand periods, improving network utilisation and potentially reducing the need for future network augmentations by alleviating peak demand pressures
2. **Addressing material differences between customers' historical and forecast data**, including consideration of whether forecast usage may provide a more accurate basis for cost allocation where historical usage is unlikely to be representative of future usage
3. **Mitigating the overstatement of new customers' CAMD**, including the consideration of introducing a CAMD 'collar' mechanism to discourage the overstatement of future demand requirements, thereby reducing the risk of network investments being made to accommodate capacity that ultimately remains underutilised, and promoting more efficient network planning outcomes and management of transmission costs
4. **Reviewing the application of TUoS charges to ESS**, including whether the current arrangements applicable to ESS continue to remain appropriate as storage deployments grow in scale and significance
5. **Implementing minor amendments to the pricing methodology to reflect the latest regulatory updates to the Rules**

We seek your feedback on these issues and if there are any other priority changes that could be considered.

3.1 Postage stamp prices

As Victoria's transmission network evolves to support the energy transition, it is important that transmission charging arrangements continue to promote efficient network utilisation, cost-reflective outcomes and equitable cost recovery. VicGrid's current TUoS charging framework comprises three distinct components, each designed to recover different categories of transmission network costs.

- **Locational charge** reflects the cost of providing transmission services to customers at different locations across the network. Customers connected in areas that require more transmission infrastructure, or where the cost of serving demand is higher, pay a higher locational charge. Conversely, customers located in lower-cost regions pay

¹ Clauses 6A 23.4(e) and (f) of the National Electricity Rules require that prices for non-locational prescribed TUoS services, and for prescribed common transmission services, be set on a postage stamp basis. In a transmission context, this means adopting a system of charging network users for transmission services in which the price per unit is the same regardless of how much energy is used by the network user or the user's location on the transmission network.

less. This component is intended to provide locational signals that reflect the relative cost of accessing the transmission network from different parts of Victoria.

- **Common services charge** recovers the costs of transmission services that provide broad system-wide benefits and cannot reasonably be attributed to specific locations on the network. These costs include system strength services, network planning and operational activities, and other common transmission services required to maintain the secure and reliable operation of transmission. All customers pay the same unit price irrespective of location, and the amount paid by each customer varies according to their level of network use.
- **Non-locational charge** recovers the remaining portion of prescribed shared transmission costs not allocated to either the locational charge or the common services charge. As per the common services charge, the non-locational charge is applied uniformly across Victoria regardless of where a customer is connected. The amount paid by each customer varies according to their level of network use.

Under the current framework, most transmission customers pay the non-locational and common services charges using an energy-based pricing approach expressed in dollars per megawatt-hour (\$/MWh). A small number of customers that have negotiated a CAMD arrangement are charged using a demand-based pricing approach expressed in dollars per megawatt (\$/MW).

The NER require that energy-based charges for non-locational and common transmission services be levied uniformly across Victoria. This approach, commonly referred to as "postage stamp" pricing, means that customers pay the same price for these services regardless of their geographic location. While this promotes simplicity and consistency, it provides only a limited signal regarding when customers use the network.

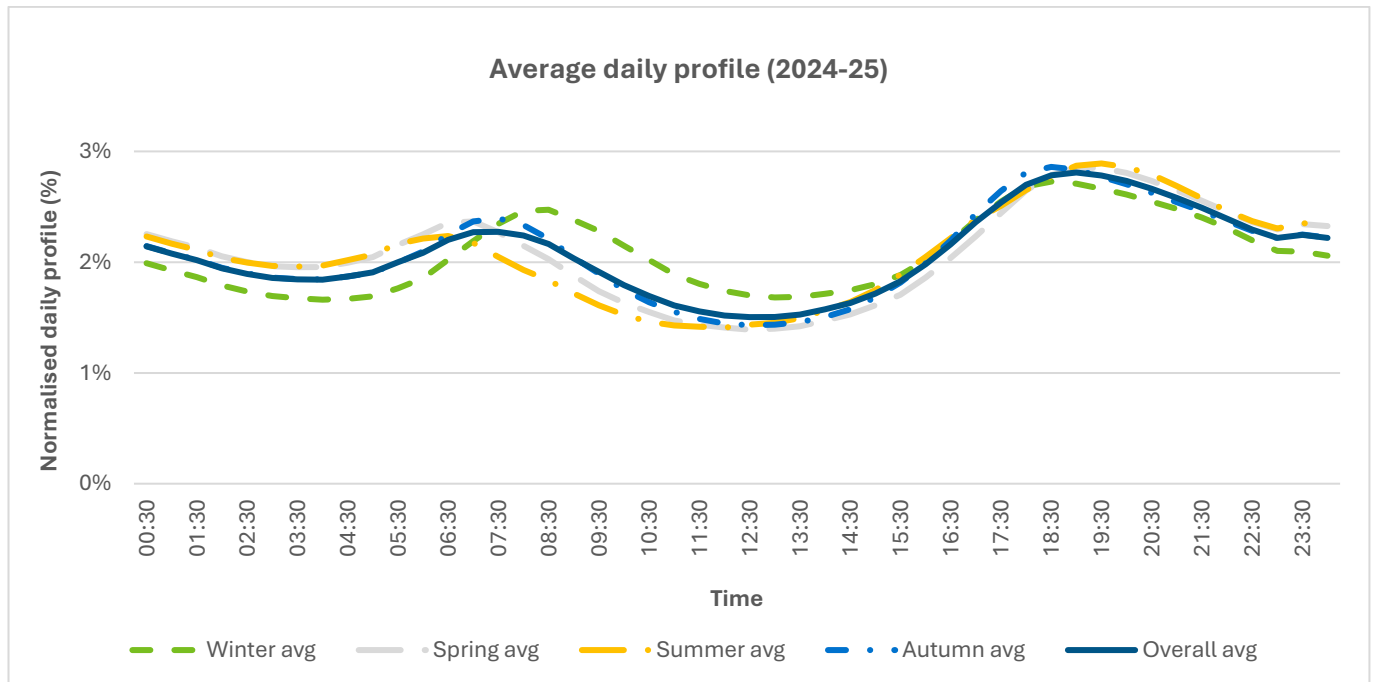
Currently, the energy-based charges are applied at a flat rate throughout the day, irrespective of the time at which electricity is consumed. As a result, customers face the same transmission price whether they consume electricity during periods when the transmission network is heavily utilised or when significant spare capacity exists. This means there is currently little incentive for TUoS customers to shift their consumption away from peak demand periods and towards times when network utilisation is lower.

From a network planning perspective, this is an important consideration because the transmission system must be designed, maintained and augmented to meet periods of peak demand. Where pricing structures do not encourage consumers to respond to network conditions, peak demand growth can drive the need for additional transmission investment even if substantial spare capacity exists for large parts of the day. This can result in lower overall utilisation of network assets and increased costs associated with expanding the network to accommodate relatively short-duration demand peaks.

As illustrated in Figure 3-1, Victoria's transmission network is characterised by an evening peak and because transmission infrastructure is planned and sized to reliably accommodate these peaks, a significant portion of network capacity remains underutilised during off-peak periods.

Over the last decade, increasing levels of rooftop and utility-scale solar generation have further altered demand patterns. In particular, the middle of the day is increasingly becoming a period of relatively low net demand on the transmission network as solar generation offsets customer consumption. Despite this growing availability of spare network capacity during early morning and midday periods, the current pricing framework does not provide customers with a financial incentive to shift flexible loads into these lower-demand periods.

Figure 3-1: Victoria's average daily profile



The absence of pricing signals may become increasingly significant as new large-scale loads connect to the transmission network. For example, data centres, electrification projects, such as charging hubs, and other energy-intensive industries are expected to represent a growing share of future demand. If these customers consume electricity during existing peak demand periods without incentivisation to modify their usage patterns, they may exacerbate peak network loading and drive the need for additional network augmentation.

Without changes to pricing arrangements, the continued growth of large transmission-connected loads has the potential to exacerbate existing network utilisation inefficiencies. This could increase the level of transmission investment required to support future demand growth, resulting in higher transmission costs that are ultimately recovered from consumers through higher network charges and electricity bills.

3.1.1 Proposed approach

With this in mind, there is an opportunity to explore whether transmission pricing structures can provide incentives for more efficient network utilisation by encouraging consumption during periods of lower network demand and available spare capacity. By signalling to use the network when its underutilised, transmission assets can be used more efficiently, improving overall asset utilisation and reducing pressure on the network during peak periods.

As such, VicGrid is exploring the introduction of a peak and off-peak pricing structure for the energy-based non-locational and common services TUoS prices.

Specifically, the proposed approach seeks to:

- Encourage customers to shift flexible electricity consumption to periods when the transmission network has spare capacity, thereby improving overall network utilisation
- Provide incentives for customers to adopt demand-side response measures, renewable energy solutions, storage technologies and other non-network solutions that reduce reliance on the network during peak demand periods
- Reduce pressure on network peaks, which are often the primary driver of transmission investment and augmentation requirements
- Improve the utilisation of existing transmission assets, ensuring that network infrastructure is used more efficiently throughout the day
- Support the long-term management of TUoS costs, potentially reducing the need for future network augmentations

VicGrid has carefully considered the regulatory requirements applicable to postage stamp pricing and the relevant provisions of the NER. Based on that assessment, VicGrid considers that a pricing structure incorporating peak and off-peak components is capable of operating consistently with those requirements, provided the resulting prices are applied on a uniform basis.

More importantly, the approach aligns with the National Electricity Objective (NEO) as shifting load to defer augmentation can promote the efficient use of existing network infrastructure, supporting efficient investment outcomes, encouraging uptake of renewables to reduce greenhouse gas emissions, and help minimise the long-term cost of transmission services for consumers while maintaining network reliability and security.

3.1.1.1 Peak and off-peak windows

Under the proposed approach, the peak and off-peak windows for the non-locational and common service price structure are:

Table 3-1: Peak and off-peak windows for non-locational and common service prices

Component	Peak*	Off Peak*
Non-locational	4pm to 9pm, Monday to Sunday	All other times
Common service	4pm to 9pm, Monday to Sunday	All other times

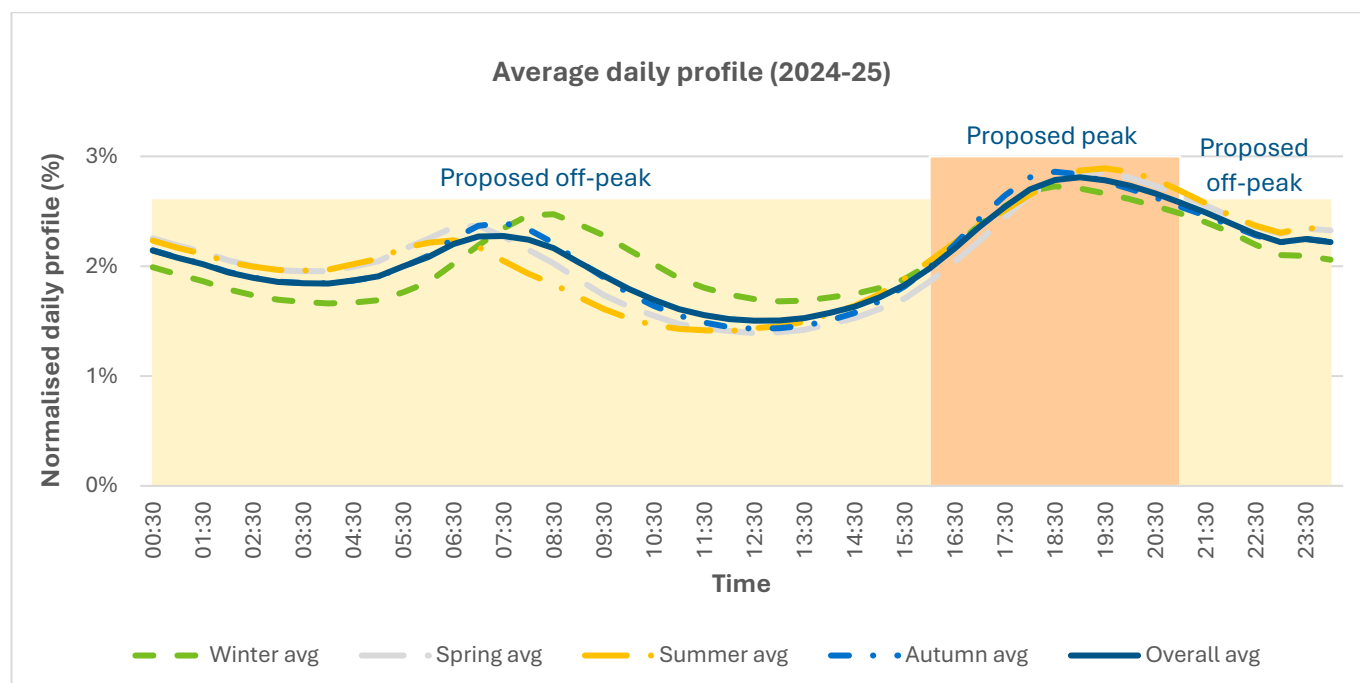
*Note: Australian eastern standard time (AEST)

The proposed peak window was selected to capture the evening peaks (as illustrated in Figure 3-1). Conversely, the off-peak window was designed to target periods where network utilisation is typically lower and spare capacity is available.

Seasonal peak and off-peak structures were not considered as part of the proposed approach, as it would introduce additional complexity. We also considered a locational peak and off-peak tariff structure. However, this option was not progressed because incorporating a locational price signal would be inconsistent with the postage stamp pricing approach, which is designed to provide uniform prices regardless of location. The proposed approach therefore seeks to balance cost-reflective pricing signals with simplicity, ease of implementation and compliance with the Rules.

Figure 3-2 below illustrates the proposed peak window and the periods of the day it is intended to target. All other periods outside of the proposed peak window will be considered off-peak.

Figure 3-2: Proposed peak window



3.1.1.2 Strength and phased transition approach of pricing signals

VicGrid recognises that introducing peak and off-peak pricing structures would represent a significant change for many transmission customers. As such, customers require sufficient time to understand the new framework, assess potential impacts and, where appropriate, implement operational or technological changes that enable them to respond.

Accordingly, VicGrid is considering a phased transition approach that gradually introduces the new peak and off-peak pricing signals over several years so that by the start of the last regulatory year of the 2028-33 regulatory control period, the strength of the peak signal is three times greater than the off-peak signal. i.e. based off a 3:1 peak to off-peak ratio.

A key consideration is that TUoS prices for a given financial year are derived using customer usage data from two financial years earlier (t-2). As a result, at the commencement of the new pricing methodology, the historical data used to calculate prices will reflect customer behaviour that occurred before the introduction of the new pricing framework. Customers therefore would not have had a reasonable opportunity to respond to the new incentives embedded within the peak and off-peak structure.

To address this issue, VicGrid is considering the following transition pathway:

- In Years 1 and 2 of the 2028-33 regulatory control period:
 - The existing flat energy-based non-locational and common services prices would be replaced with peak and off-peak prices. Importantly, this change would alter only the pricing structure, not the overall price level, with the same prices being applied to both non-locational and common service prices being set under either a flat or time-of-use approach.
 - As a result, the peak-to-off-peak price ratio would initially be set at 1:1 for the first two years of the regulatory control period.

This approach recognises that the t-2 customer data used to derive prices during this period will not yet reflect customer responses to the new pricing signals.

- In Years 3 to 5 of the 2028-33 regulatory control period:
 - VicGrid proposes to progressively increase the peak-to-off-peak price ratio over the regulatory period, reaching 3:1 by Year 5, such that peak prices would be three times higher than off-peak prices.

Importantly, the proposed peak and off-peak pricing structure would ensure that the total TUoS revenue recovered from Non-Locational and Common Services remains unchanged relative to the existing energy-based pricing approach.

The phased implementation approach, together with ongoing technology advancements, will support customers with both time and capability to adapt to the new pricing signals. The transition pathway will allow customers to adjust their operations and consumption behaviours from the start of the next regulatory control period, while having access to advanced tools and systems that will enhance their ability to monitor and manage their energy consumption.

Collectively, it will help customers to respond more effectively to the new pricing signals. Table 3-2 below summarises the phased transition approach over the 2028-33 regulatory control period.

Table 3-2: Phased transition approach of peak and off-peak price signal

Regulatory year	1 July 28 to 30 June 29	1 July 29 to 30 June 30	1 July 30 to 30 June 31	1 July 31 to 30 June 32	1 July 32 to 30 June 33
Peak to off-peak ratio	1:1	1:1	1.5:1	2:1	3:1

Box 3.1 – Consultation questions

1. Do you agree that introducing peak and off-peak price signals is necessary to better support the transmission network?
2. Is the peak and off-peak window reasonable? Why or why not?
3. Should the peak to off-peak signal be stronger, weaker, or is the proposed level appropriate?
4. Do you have any comments on the proposed phased transition approach, which would allow customers time to adapt to the signal and respond if necessary, or should the full signal be implemented from 1 July 2028?

3.2 Material differences between historical and forecast data

Historically, the transmission pricing framework has been developed and refined in an environment characterised by a relatively stable customer base and predictable patterns of electricity demand and consumption. The number of transmission-connected customers has been steady over time, and customer demand profiles have generally remained consistent from one year to the next. In these circumstances, the use of historical customer data has provided a reliable basis for allocating transmission costs and establishing annual TUoS prices and charges.

Consistent with this approach, the current pricing methodology primarily relies on metered data from two financial years prior (t-2) when calculating TUoS prices and charges for the forthcoming financial year (t-0), except:

- For newly connected customers, historical t-2 metered data is not available for the first two years following connection. Accordingly, forecast demand and energy consumption for the relevant pricing year are used to determine the customer's initial TUoS prices and charges. During the year, common services and non-locational charges are subsequently calculated and settled on a monthly basis using the customer's actual metered data, whereas the locational charge undergoes a reconciliation at the start of t+1 to reflect the difference between forecast and actual average monthly maximum demand recorded during t-0. This approach allows new customers to contribute to transmission costs despite the absence of historical usage information while ensuring charges progressively reflect actual network utilisation.
- For customers that have negotiated a CAMD under a Use of System Agreement (UoSA), a separate assessment is undertaken. TUoS charges are calculated under both:
 - A standard approach using the customer's historical t-2 metered data
 - A demand-based approach using the customer's contracted CAMD²

The outcomes of both calculation methods are then compared, and the one resulting in the lowest charges is applied. This arrangement recognises the unique characteristics of CAMD customers and provides flexibility in how transmission charges are determined.

Under the historical conditions in which the methodology was developed, the use of t-2 metered data has generally delivered efficient and equitable outcomes. By allocating costs on the basis of historical actual customer usage, the framework has supported a broadly proportionate recovery of transmission costs and has provided a practical and transparent basis for determining locational, non-locational and common services charges each year.

However, the Victorian electricity system is changing rapidly. In particular, Victoria is experiencing growth in the number and scale of prospective transmission-connected customers, including large energy-intensive developments such as data centres, advanced manufacturing facilities, electrification projects and other bespoke loads. These customers often exhibit demand characteristics that differ significantly from those of traditional transmission users.

As the pace of new connections accelerates, reliance on historical t-2 metered data may become increasingly challenging. Where customer demand is growing rapidly, historical usage information may no longer be representative

² This approach does not apply to existing customers who do not have a CAMD.

of current or future network utilisation. This creates a risk that TUoS prices and charges may not accurately reflect how the transmission network is being used during the pricing year.

For example, a large customer with substantial forecast growth may place increasing demands on the transmission network and influence future network planning and augmentation decisions. However, because prices and charges are based largely on usage patterns from two years earlier, the customer's allocated share of transmission costs may not fully reflect its actual utilisation of network capacity in the pricing year. Conversely, existing customers may bear a greater share of costs associated with network services that are increasingly being utilised by new and rapidly growing loads.

3.2.1 Proposed approach

To promote a more equitable allocation of transmission costs and minimise the potential for cross-subsidisation between customers, VicGrid is considering whether forecast demand and consumption data should continue to play a greater role in determining TUoS charges beyond the first two years of a new connection in circumstances where historical usage data is not representative of actual network utilisation. This proposed approach would only apply to new customers entering into UoSAs from 1 July 2028. Existing arrangements established before this date would remain unchanged.

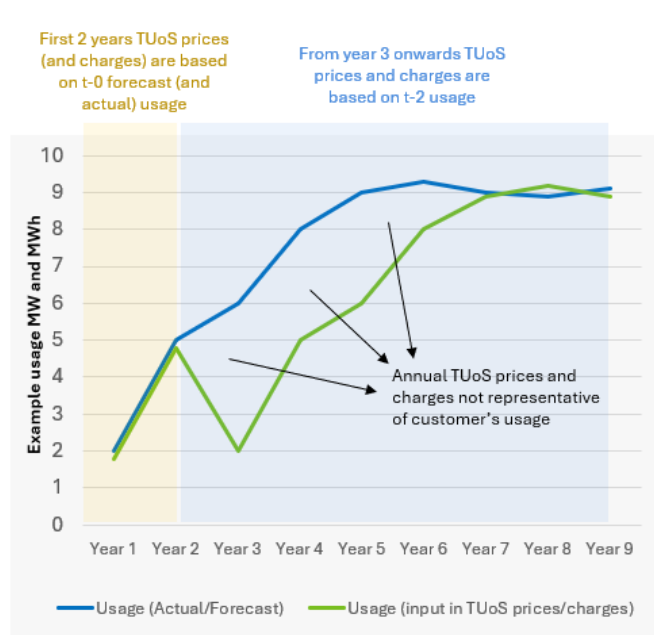
Accordingly, VicGrid is considering a targeted approach under which forecast load data may continue to be used beyond a customer's initial two years of connection where there is a material difference between forecast network utilisation in the pricing year (t-0) and the customer's historical t-2 metered data.

Under this potential approach applicable to new customers:

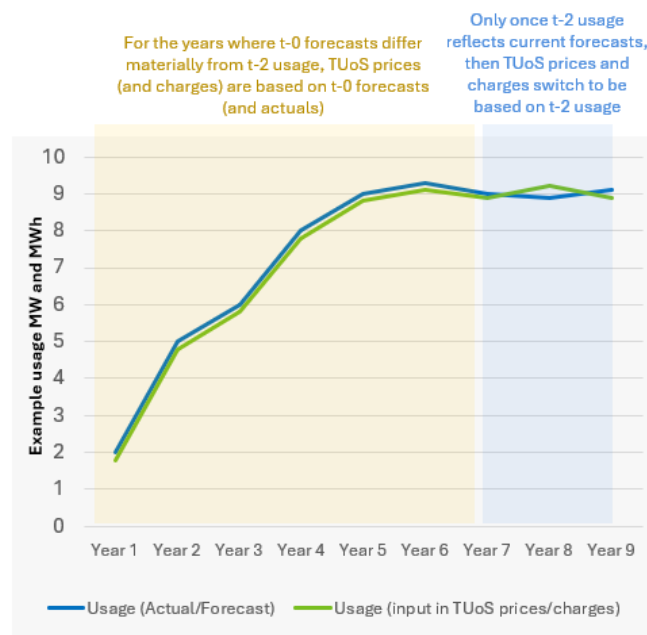
- VicGrid would assess whether a customer's forecast demand and energy consumption for the pricing year differs materially from its historical t-2 metered data.
- Where a material difference exists, TUoS prices and charges for that customer would continue to be determined using forecast demand and consumption data, consistent with the approach currently applied to new customers during their first two years following connection. For simplicity, forecast demand and consumption data will continue to apply where either the forecast demand or energy consumption data differs materially from the customer's historical t-2 metered data.
- Charges would continue to be reconciled against actual consumption (throughout the year) and demand (at the start of year t+1) in accordance with the applicable charging arrangements as described in the current pricing methodology.
- As part of the annual TUoS price process, VicGrid would reassess the customer's demand profile and continue applying the forecast-based methodology until historical metered data becomes broadly representative of expected network utilisation.
- Once t-0 forecasts and t-2 metered data converge sufficiently, indicating that the customer's load has largely reached its intended operating capacity and demand growth has stabilised, the customer would transition back to the standard pricing methodology based on historical metered data.

Figure 3-3 below illustrates how the proposed approach will operate.

Figure 3-3: Proposed approach for addressing material differences in historical and forecast data



Current approach



Proposed new approach

The objective of the proposed approach is not to alter the overall amount of TUoS revenue recovered by VicGrid, but rather to improve how that revenue is allocated among network users. More closely aligning transmission charges with expected network utilisation reduces the risk of cost shifting between customers and ensures that rapidly growing loads contribute more appropriately to the costs of providing and maintaining the transmission network capacity they require.

As the number of large transmission-connected customers continues to grow and demand profiles become increasingly diverse, the use of forecast data in certain circumstances may provide a more accurate and equitable basis for allocating transmission costs while maintaining the integrity and efficiency of the broader pricing framework.

3.2.1.1 Material difference threshold

The proposed option is to adopt a threshold that is 10 per cent lower as the criterion for determining whether a difference between historical and forecast data is considered material. Where the variance exceeds this threshold, further investigation and justification would be required to assess the impact on the relevant analysis, forecasts, or pricing outcomes.

The primary advantage of a fixed 10 per cent threshold is that it provides a clear, transparent and consistent basis for assessing material differences across all customers and scenarios. It is relatively simple to administer, supports a standardised approach to forecasting and pricing assessments, and reduces ambiguity regarding when a variance should trigger further review. However, a fixed threshold may not be appropriate in all circumstances, as the significance of a variance can vary depending on factors such as customer size, load profile, demand volatility, and the nature of the connection. Consequently, some variances may be classified as material despite having limited practical impact, while others may warrant closer scrutiny despite remaining below the threshold.

Alternatively, the materiality threshold could be negotiated and agreed under the UoSA. This approach provides greater flexibility, allowing the threshold to be tailored to the specific characteristics of the customer, including load variability, forecasting uncertainty, and operational requirements. Such flexibility may result in a more practical and commercially appropriate outcome for both parties. However, a negotiated threshold may introduce additional administrative effort and could lead to inconsistent treatment across customers.

Box 3.2 – Consultation questions

1. Do you agree that material differences between demand/consumption in year t-2 and the forecast for year t-0 should be considered in the annual TUoS price and charge setting process?
2. What are your views on adopting a 10 per cent lower threshold as the criterion for identifying material differences? Alternatively, would a threshold negotiated under the UoSA be more appropriate?
3. What are your views on the proposed approach to address this scenario? Are there any alternative approaches we should consider?

3.3 Overstating contract agreed maximum demand

When connecting to the transmission network, customers negotiate a CAMD as part of their UoSA with VicGrid. The CAMD represents the maximum level of demand that the network is expected to accommodate for that customer and is a critical input into transmission network planning. It informs decisions regarding the scale, location and timing of network augmentations required to meet future load growth, ensuring that sufficient network capacity is available when needed.

For traditional load customers, this framework generally functions effectively. These customers typically progress to their target operating capacity within a relatively short period and thereafter exhibit stable and predictable demand patterns. Consequently, the CAMD used in transmission planning and TUoS pricing is generally consistent with actual network utilisation, resulting in network investment decisions and cost allocations that reasonably reflect the services being provided and the capacity being reserved.

However, the emergence of large bespoke loads, such as data centres, has highlighted potential challenges within the existing framework. For these customers, the CAMD specified in the UoSA is often based on a multi-year ramp-up profile based on long-term growth projections. In practice, actual utilisation may lag (or may never eventuate) these forecasts, sometimes by a significant margin, and can create a disconnect between the CAMD profile used to justify and plan network investments and the customer's realised use of the network.

Ultimately, this can lead to inefficient network augmentations and costs.

At a high level, the following scenario is particularly relevant for new large bespoke loads connecting to the network:

- **Scenario: Shared recovery of augmentation costs through TUoS charges**

Where upstream augmentation is required to accommodate the new customer's CAMD ramp-up profile, and the costs of those augmentations are recovered through TUoS charges, the consequences of underutilisation may extend beyond the connecting customer. If augmentation investments are undertaken to support anticipated demand growth that does not occur, the resulting costs may be recovered from the broader customer base despite the associated network capacity remaining underused. This creates the potential for other transmission customers to subsidise a portion of the costs attributable to a new customer's unrealised demand.

The potential for cross-subsidisation is amplified by the current TUoS charging arrangements for customers with a CAMD. Specifically:

- **Locational charges** – A customer pays the lower of charges calculated with the demand-based price method on their CAMD and on t-2 maximum demand.
- **Non-locational and common services charges** – A customer pays the lower of charges calculated with the demand-based price method on their CAMD and the energy-based price method on their t-2 metered data.

As a result, customers can secure network capacity based on a high CAMD while their TUoS charges may ultimately reflect a substantially lower level of actual demand or energy usage. Where significant differences emerge between contracted and realised utilisation, questions arise as to whether the current arrangements appropriately allocate the transmission costs, particularly in the context of large bespoke loads.

This risk of under-utilisation or ‘asset stranding’ is also highlighted in a recent rule change proposal made to the Australian Energy Market Commission (AEMC) by the Hon Chris Bowen, Minister for Climate and Energy. The rule change proposal notes that “improved cost recovery and prudential arrangements will have a beneficial impact by reducing the level of speculation in the sector and resulting uncertainty. This will reduce delays, inefficient investment and asset stranding risks, consistent with the NEO”³.

Given the growing number of large bespoke loads seeking access to Victoria's transmission network, it is important to consider whether the existing pricing methodology framework continues to promote efficient investment signals and equitable cost recovery outcomes in the above scenario.

3.3.1 Proposed approach

To support efficient transmission planning, augmentation and equitable cost allocation among network users, VicGrid is considering the introduction of a CAMD collar mechanism. The objective of this reform is to discourage the overstatement of future demand requirements and reduce the potential misalignment between the CAMD profiles negotiated in the UoSAs and a customer's actual utilisation of the transmission network over time.

To address the issue raised in the scenario in section 3.3, VicGrid is considering requiring new customers that negotiate a CAMD in their UoSA to also agree to a CAMD collar, with a collar set at 90 per cent of the applicable CAMD value. In effect, the CAMD collar would establish a minimum level of demand against which TUoS charges may be calculated, providing greater alignment between the cost of network augmentation triggered by a new customer and the transmission charges that customer pays.

By introducing a minimum charging threshold linked to the customer's contracted capacity, the collar mechanism would disincentivise customers from overstating future demand requirements when negotiating CAMDs and would help ensure that customers contribute appropriately toward the costs of network investments undertaken to support their connection requirements.

Under the proposed reform, a new customer would be charged as below:

- **Locational charges** – Customers would continue to have their locational charges determined by multiplying the locational price by the lower of:
 - The customer's CAMD
 - The customer's average monthly maximum demand from two years prior (t-2 demand)

However, where the charges calculated using the customer's t-2 average monthly maximum demand are lower than the charges derived using the CAMD collar, the CAMD collar outcome would apply instead.

This ensures that customers cannot reduce their locational charges below a minimum level where substantial network capacity has been commissioned in response to their needs as negotiated under their CAMD.

- **Non-locational and common services charges** – Customers would continue to have their non-locational and common services charges determined by multiplying the respective non-locational and common service prices by the lower of:
 - The customer's CAMD
 - The customer's t-2 metered energy data

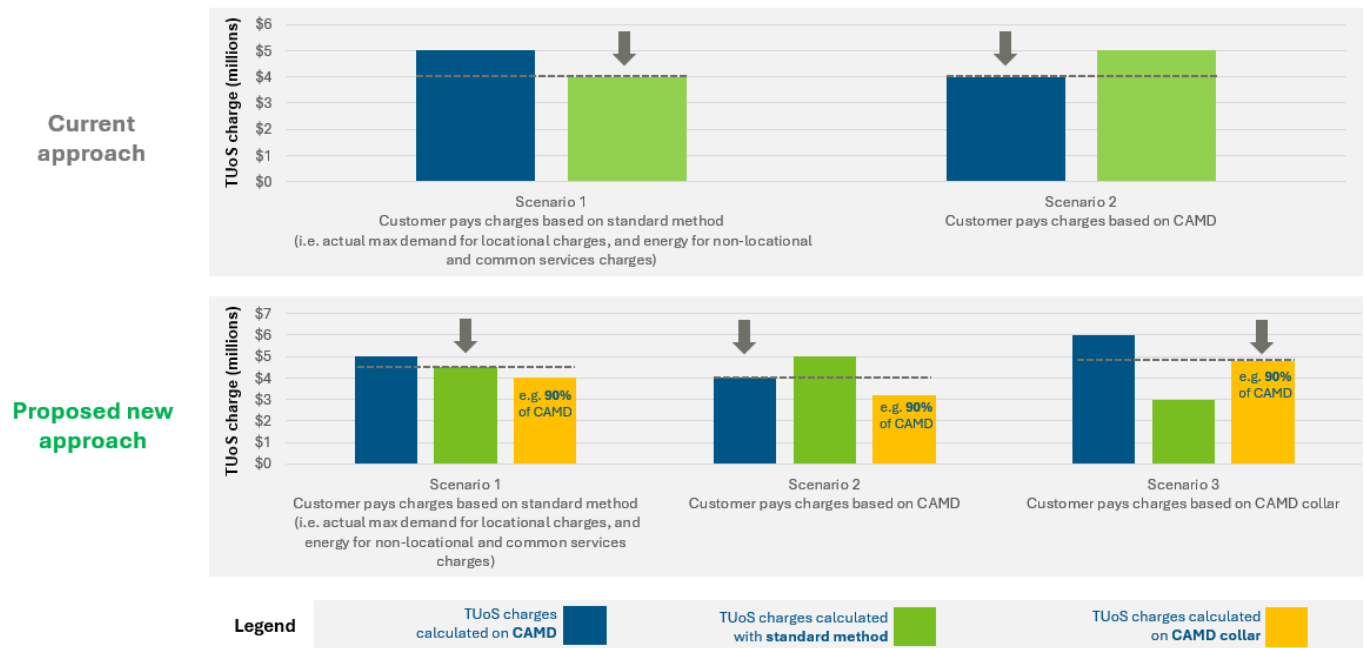
However, where the energy-based outcome produces a charge lower than the amount calculated using the CAMD collar, the CAMD collar would become the applicable charging basis.

This approach maintains the flexibility embedded within the current pricing framework while establishing a minimum contribution that more appropriately reflects the network capacity the customer has requested.

Figure 3-4 below illustrates the key elements of the proposed reform.

³ The Hon Chris Bowen, *Request for standard rules – improving cost recovery arrangements in the National Electricity Market*, July 2026, p.10, [ERC0448 and ERC0456 - Rule change request 0.pdf](#).

Figure 3-4: Interaction between the CAMD collar and the calculation of locational, non-locational and common service charges



Further consideration is also required regarding the most appropriate basis for determining the CAMD value as an input into the above reform. Two possible options include:

- **Option 1** – the relevant CAMD value for the financial year, as per CAMD ramp-up schedule in the UoSA.

This option would provide a clear and transparent framework that directly reflects the demand profile agreed between VicGrid and the customer at the time of connection. It would also provide certainty to both parties regarding future cost recovery and charging arrangements.

- **Option 2** – the CAMD value as agreed with VicGrid ahead of the new financial year.

This option may provide greater flexibility by allowing CAMD profiles to better reflect evolving project timelines, commissioning schedules and operational requirements. At the same time, the CAMD collar would continue to act as a safeguard against significant reductions in contracted demand that could undermine efficient cost allocation or transfer augmentation costs to other network users.

Box 3.3 – Consultation questions

1. Do you agree that introducing a CAMD collar mechanism in the pricing Methodology is an appropriate way to discourage new customers from overstating their CAMD in their UoSAs, to promote fairer TUoS costs allocation and minimise cross subsidisation among transmission customers?
2. As part of the new mechanism, which CAMD input approach do you prefer. Option 1 or 2, and why?
3. Are there alternative approaches you believe we should consider to address the overstatement of CAMD issue?

3.4 Energy storage systems

As the energy transition accelerates, ESS are playing an increasingly important role in the National Electricity Market (NEM). ESS encompasses a broad range of electricity storage technologies, including batteries, pumped hydro,

flywheels, thermal storage and chemical storage solutions. These technologies provide critical support to the power system by absorbing excess generation, particularly from variable renewable energy sources, and discharging stored energy during periods of high demand. In doing so, ESS can improve system reliability, reduce the risk of supply shortfalls and blackouts, alleviate price volatility, and defer or reduce the need for investment in the replacement of ageing network infrastructure.

The Australian Energy Market Commission's (AEMC) 2021 Integrating Energy Storage Systems into the NEM rule change introduced several important reforms to better recognise and integrate storage assets within the NER. While these reforms established new market arrangements for ESS, they retained the existing framework under which storage proponents may elect to connect to the transmission network either under a prescribed shared transmission service arrangement or under a negotiated transmission service arrangement. This distinction is significant, as it determines whether an ESS is required to contribute to TUoS charges or instead pay charges negotiated directly with the transmission network service provider.

Further to this, AEMO undertook public consultation in 2021 during the development of the current pricing methodology to consider whether ESS should be exempt from TUoS charges altogether, recognising the broad benefits that storage can provide to the power system. Stakeholder submissions reflected a range of mixed views, and subsequently, the AER did not support a blanket exemption and retained the existing framework, allowing ESS proponents the flexibility to determine their preferred connection and charging arrangements.

To date, ESS projects connected to Victoria's transmission network have elected to connect under negotiated transmission service agreements. As a result, no ESS currently pays prescribed TUoS charges and therefore does not contribute, through the prescribed charging framework, to the ongoing costs associated with planning, operating, maintaining and augmenting the declared shared transmission network.

Looking ahead, ESS projects represent a substantial and growing proportion of Victoria's transmission connection pipeline. As the scale, number and utilisation of these assets continue to increase, their reliance on and use of the shared transmission network is expected to become increasingly significant. This raises important questions about whether the broader system benefits delivered by ESS continue to justify the current arrangements, including the ongoing option for storage proponents to not contribute to prescribed TUoS charges.

While VicGrid is not proposing any changes to its current approach, it is seeking stakeholder perspectives on this issue to help inform future policy considerations and ensure that transmission charging arrangements remain fit for purpose as the role of energy storage in Victoria's electricity system continues to evolve.

Box 3.4 – Consultation questions

1. Should energy storage systems, specifically their charging load, be required to pay TUoS charges? And if so, why or why not?

3.5 Other proposed amendments and issues

3.5.1 Alignment with the 'Flexibility in the allocation of interconnector cost' final rule

In March 2024, a rule change was proposed to increase flexibility in allocating interconnector costs across NEM regions, aiming to address barriers that may prevent the development of net beneficial interconnectors. For example:

- Existing rules are unclear or unsuitable for interconnectors traversing Commonwealth waters
- Cost recovery arrangements may create significant bill impacts for consumers in one or both jurisdictions
- Jurisdictional agreement and support may be needed to reduce uncertainty and enable nationally significant transmission projects

The flexibility in the allocation of interconnector cost final rule retains the existing interconnector cost allocation pathway while introducing an alternative mechanism that allows ministers to implement agreed cost allocations for new regulated interconnectors. This rule took effect on 3 July 2025.

Under the final rule, the AER was required to implement transitional arrangements, leading to amendments to its pricing methodology guidelines which were published on 3 July 2025.

As a result, VicGrid must update its next pricing methodology to align with the AER's current pricing methodology guidelines (3 July 2025), incorporating changes for flexible interconnector cost allocation, which include:

- Introduce the term “total regional aggregate annual revenue requirement (AARR⁴)” and make necessary updates to align with the final rule
- Ensure compliance with AER guidelines and the NER. The pricing methodology will be updated to reflect:
 - How interconnector transfer amounts are calculated and included in the total regional AARR
 - Provide hypothetical examples of how the total regional AARR is calculated, setting out the components identified in clauses 6A.22.5(a)-(d) of the NER

3.5.2 Harmonisation of terms and definitions

To ensure the pricing methodology has the same meaning and is consistent with the NER and AER guidelines, the following amendments will be applied in the next pricing methodology:

- The meaning of CRNP will be updated in the pricing methodology glossary so that CRNP is defined as ‘Cost reflective network pricing methodology, as set out in clause S6A.3.2 of the NER’
- The term ‘overall regional AARR’ to be amended to ‘total regional AARR’
- Other amendments throughout the document may also be required for minor corrections and to reflect changes to the NER since the current pricing methodology was approved in 2022

Box 3.5 – Consultation questions

1. Do you have any other amendments that you would like VicGrid to consider?
2. Are there any additional issues you would like to raise? Please include relevant context and reasons.

⁴ As provided by clause 6A.22.1 of the NER, for prescribed transmission services provided by a TNSP, the AARR is the total annual revenue to be earned by an entity for a defined class or classes of services. Total regional AARR is the sum of the AARR for the coordinating network service provider for the NEM region plus the AARR of other TNSPs in the region plus any allocation of AARR agreed between coordinating network service providers and any interconnector transfer amount allocated by the coordinating network service provider.

4 VicGrid's consultation process

4.1 Requirement to consult

VicGrid recognises the importance of engaging with stakeholders early in the development of its next pricing methodology and considers engagement to be a critical element of good regulatory practice. Early consultation enhances transparency, encourages constructive dialogue, and supports more informed decision-making by ensuring that the next pricing methodology is informed by a broad range of perspectives, operational experience and technical expertise.

Through this consultation process, VicGrid is seeking feedback from all interested parties on the issues and potential changes outlined in this paper and any other matters that could be considered.

VicGrid welcomes submissions from all individuals and organisations with an interest in transmission pricing, including existing TUoS customers, prospective transmission-connected customers such as data centres and other energy-intensive industries, electricity network businesses, generators, energy storage proponents, retailers, industry associations, consumer advocacy organisations, regulatory and pricing specialists, academics, consultants, and other interested stakeholders.

By consulting at this early stage, VicGrid aims to ensure that the development of the 2028-33 pricing methodology is informed by the most complete and relevant information available. This engagement will help ensure that the next pricing methodology is robust, transparent, practical to implement, and capable of supporting Victoria's evolving energy transmission system while promoting efficient and equitable cost allocation outcomes.

Importantly, this consultation represents the first stage of stakeholder engagement and is intended to inform the development of VicGrid's draft 2028-33 pricing methodology. It does not replace the formal consultation process that will be undertaken by the AER as part of its assessment of the draft pricing methodology.

Following VicGrid's submission of its draft 2028-33 pricing methodology to the AER, stakeholders will have a further opportunity to review the proposal, provide feedback, and make formal submissions through the AER's statutory consultation process. This process is currently expected to occur during 2027 and will provide an additional avenue for stakeholders to contribute to the final design of Victoria's transmission pricing framework applicable for the 2028-33 regulatory control period.

4.2 Next steps

Consultation will take place to the following timetable.

Item	Due date
Pricing methodology consultation paper published	31 August 2026
Consultation paper stakeholder submissions due	Responses due 11:59 pm, Friday 30 October 2026
Decision paper published	December 2026
Submit draft 2028-33 pricing methodology to the AER	December 2026

