Revenue Methodology for Victoria's electricity transmission system

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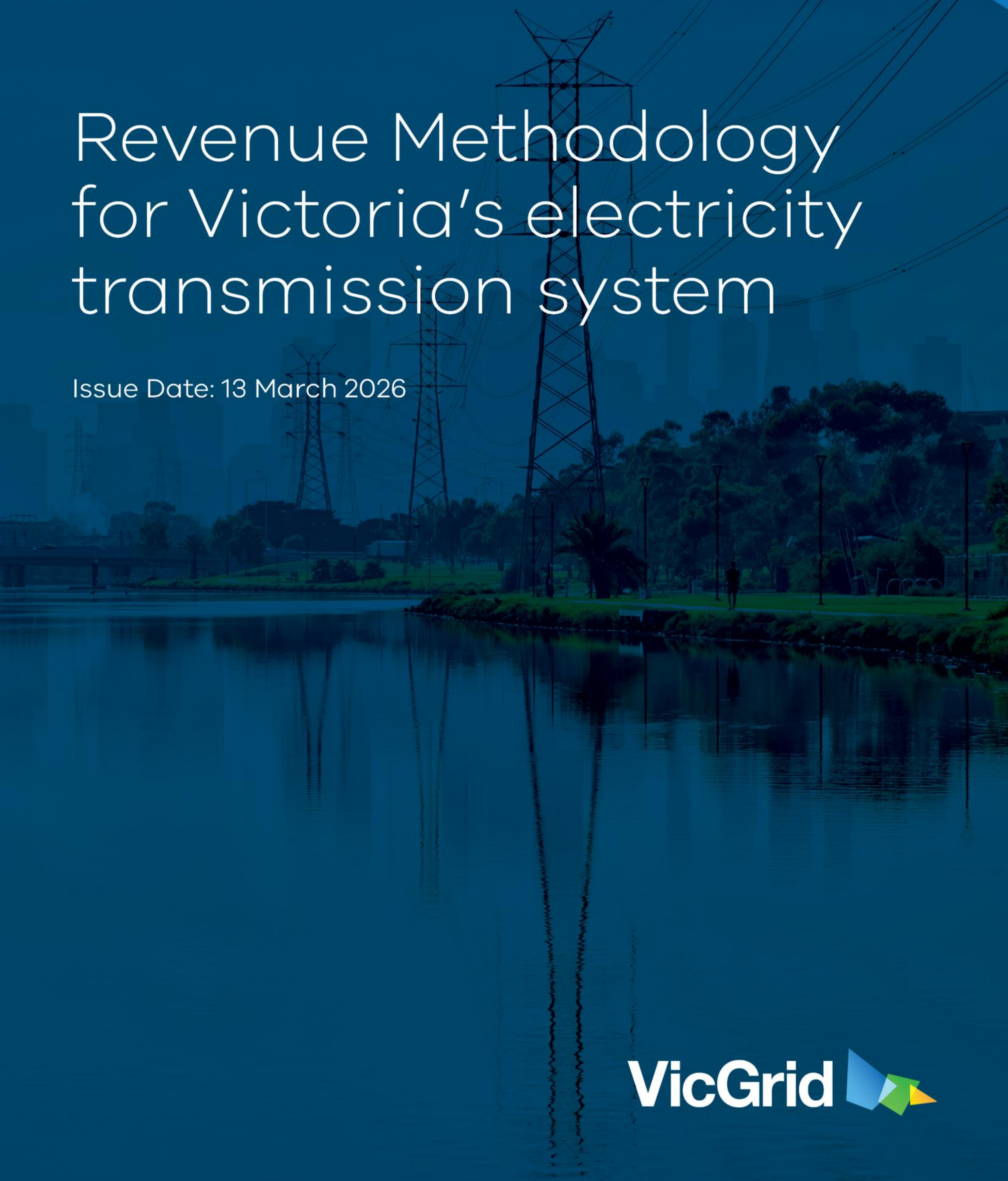

VicGrid

Notice

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This document does not constitute legal or business advice and should not be relied on as a substitute for obtaining detailed advice about the National Electricity Law, the National Electricity (Victoria) Act 2005, the National Electricity Rules, or any other applicable laws, procedures or policies.

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.

Version Control

Version	Date	Notes
1.0	13.03.2026	

Contents

1. Introduction

1.1 Purpose

The *National Electricity (Victoria) Act 2005* (NEVA) confers on VicGrid the declared network functions in Victoria, under section 50C of the National Electricity Law (NEL), and enables VicGrid to charge network users for the services it provides under these functions. Additionally, as a result of legislative reform, VicGrid has also become the Coordinating Network Service Provider (CNSP) for Victoria.

Under the National Electricity Rules (NER) as modified by the NEVA, VicGrid is required to have:

- A Revenue Methodology setting out the method for calculating the amount which VicGrid can recover for the provision of prescribed shared transmission services in Victoria; and,
- A Pricing Methodology setting out the principles as to how the amount to be recovered is converted into prices and charges for the provision of those services.

VicGrid's Revenue Methodology is not subject to Australian Energy Regulator (AER) approval. Although VicGrid is ordinarily required to consult with the public when formulating or amending its Revenue Methodology, this requirement does not apply in its first year of operation[1] or where specified otherwise in applicable legislation.

1.2 Background

On 1 November 2025, VicGrid became responsible for providing shared transmission services by means of, or in connection with, the declared shared network (DSN) in Victoria, planning future requirements of the DSN, procuring augmentations and non-network services in the DSN and connecting new generators and loads to the system. VicGrid is also now the System Strength Service Provider in Victoria under clause 5.20C.3(a)(2) of the NER.

This document describes:

- How VicGrid calculates the costs which VicGrid can recover for the provision of prescribed transmission services in Victoria, referred to as VicGrid's transmission use of system (TUoS) revenue requirement. In the Pricing Methodology, this is also referred to as the maximum allowed revenue (MAR)
- The categories of costs to be recovered
- How VicGrid allocates costs between different service categories
- How any under- and over-recovery of revenue in a particular year will be treated
- How VicGrid will report its annual charges.

[1] Pursuant to Section 40(2) of the National Electricity (Victoria) (VicGrid) Regulations 2025, public consultation is not required during the period from 1 November 2025 to 1 November 2026.

2. VicGrid's transmission services

VicGrid does not own any element of the declared transmission system. Rather, it procures services from network and non-network service providers through contracts and provides transmission services or equivalent to network users through service agreements known as use of system agreements (UoSAs).

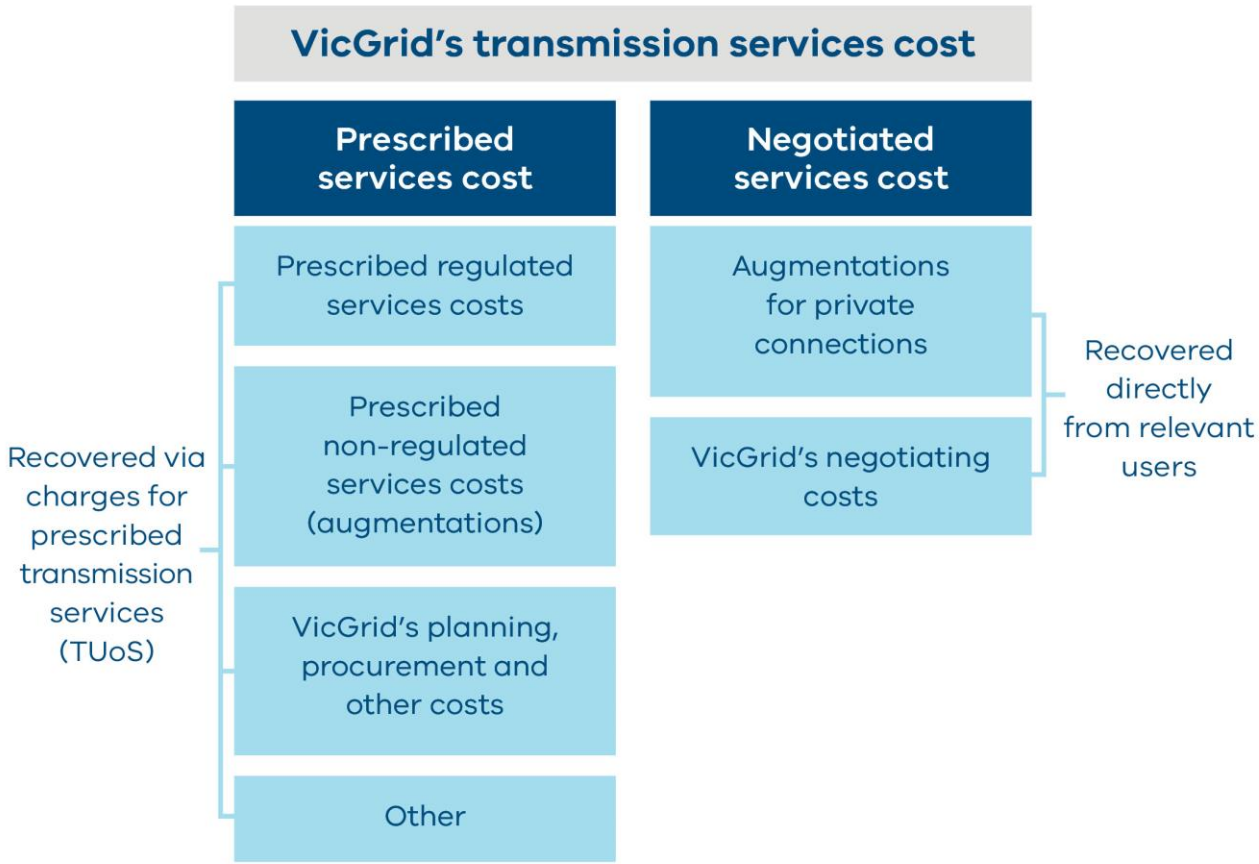
Transmission services provided to network users are classified as negotiated services or prescribed services.

The costs to provide prescribed transmission services are recovered from network users via TUoS charges. These network users are distribution businesses and customers that are directly connected to the transmission system. In some circumstances, funding for VicGrid may be secured from other sources (for example, Victorian government funding) in which case, such costs are not included in VicGrid's TUoS revenue requirement.

The costs incurred in providing negotiated services are recovered directly from the connecting parties.

Figure 1 outlines cost categories and how they are being allocated between the two service categories.

Figure 1 – VicGrid's transmission services cost categories



2.1 Negotiated services

Negotiated services are provided by VicGrid to single network users or a small group of network users. Typically, this will be for a new generator or large load connecting to the transmission system. The costs incurred to provide negotiated services will be recovered directly from that user and are excluded from the calculation of VicGrid's TUoS revenue requirement.

2.2 Prescribed services

All other services are determined by identifying future requirements. This requires an analysis of the existing service capabilities, future demand projections, generation connection locations, technological advancements, policy drivers and economic considerations.

If this analysis identifies a shortfall in the capability of the transmission system, new services will be identified and procured only if the benefits of procuring the service exceed the costs. This cost-benefit analysis may be subject to a public consultation process to enable all network users to understand why they are likely to incur additional charges and for network and non-network asset owners to identify and submit innovative and efficient solutions to meet the identified needs. In this way, any additions to the system are identified and provided in the most economic manner and the increased capability of the system best meets consumers' needs. These services are defined as prescribed transmission services.

System strength transmission services are included in prescribed services.

Prescribed services costs are recovered from network users through TUoS charges[2]. Most TUoS charges are allocated to distribution businesses with some allocated to large customers directly connected to the transmission system.

From time to time, VicGrid may also be required by Ministerial Order under the NEVA to undertake or procure services as defined in each Ministerial Order. More details on this can be found below at Section 3.4.6.

3. Components of VicGrid's TUoS revenue requirement

VicGrid's TUoS revenue requirement consists of the following elements:

- Prescribed regulated services costs
- Prescribed non-regulated services costs
- VicGrid's planning, procurement and other costs
- Other
- Over- and under-recovery from previous years

Each of these is discussed below in turn.

3.1 Prescribed regulated services costs

The majority of VicGrid's TUoS revenue requirements are determined by the AER's revenue regulatory arrangements for declared transmission system operators (DTSOs). Under these arrangements, a DTSO's revenue is determined after it submits a proposal to the AER, typically every five years, for sufficient revenue

[2] Unless recovered via other sources as described above.

to enable it to continue providing transmission services to VicGrid. The DTSO then charges VicGrid in line with the AER-approved amounts and VicGrid then incorporates these amounts into its TUoS revenue requirement.

VicGrid, in its role as the CNSP, is also responsible for recovering and distributing the regulated revenue of any other transmission network service provider (TNSP) providing transmission services in Victoria.

As of November 2025, there are currently three network asset owners (AusNet Services, Murraylink and Basslink[3]) in Victoria whose revenues are determined by the AER.

3.2 Prescribed non-regulated services costs

At times, VicGrid contracts for transmission services (for the use of network assets) and non-network services (for the use of non-network alternatives[4]) in respect of the DSN that are not regulated by the AER. The cost of these services, including system strength service payments, are charged to VicGrid under an agreement between the service provider and VicGrid.

In the case of augmentations, the terms of these contracts are typically for 30 years or in line with the technical life of the assets involved. The charges largely reflect the annualised cost of the service being provided.

In the case of the service being provided by a service provider who is subject to AER regulated revenue, depending on the terms of the contract, the network assets used to provide the transmission service may be rolled into the service provider's regulated asset base (RAB) at the commencement of a subsequent revenue period, subject to AER approval. Alternatively, it can continue to be charged under contract.

3.3 VicGrid's planning, procurement and other costs

VicGrid incurs other costs for the provision of prescribed shared transmission services, including in carrying out the declared network functions (see Section 5), for example in respect of planning (including through the development of the Victorian Transmission Plan), authorising and contracting for augmentation to the declared shared network.

VicGrid also incurs costs for other statutory functions which are ring-fenced and accounted for separately from VicGrid's other functions costs.

In allocating costs between its various functions, VicGrid has adopted the principles that the allocation must be:

- Fair and reasonable
- Practical to implement and maintain
- Based on the accrual basis of accounting and is in accordance with applicable Australian Accounting Standards
- Based on a full cost recovery basis
- Consistent with legal requirements

[3] VicGrid's MAR includes the costs forecast to be incurred by VicGrid for the provision of prescribed shared transmission services provided by Basslink from 1 July 2026. In calculating the MAR for the 2026-27 financial year, VicGrid has adopted the revenue from the AER's draft determination for Basslink (dated 12 September 2025) and will make adjustments to account for any over- or under recovery of revenue in the following financial year.

[4] This includes services provided by other networks (e.g., distribution and other networks) as an equivalent but equally or more efficient alternative to a transmission network service required to meet an identified need.

Where practicable, costs will be directly allocated to the function that the cost relates to. Where it is not practicable to allocate costs directly to a function, VicGrid will use an allocation methodology that is consistent with the principles outlined above.

3.4 Other

3.4.1 Revenue

VicGrid may receive additional revenue over and above the revenue from TUoS charges in carrying out the declared network functions, including interest on cash held at bank and revenue from generators paying system strength charges.

This additional revenue reduces the overall TUoS revenue requirement.

3.4.2 Settlements residue

In the National Electricity Market (NEM), settlements residue is the difference between the amount AEMO collects from market customers and the amount AEMO pays to generators for spot market transactions. This revenue primarily relates to settlements residue that VicGrid, as the CNSP for Victoria, receives in accordance with the NER. Settlements residue components can be either positive or negative dollar adjustments to the TUoS revenue requirement.

3.4.3 Net charges/receipts from inter-regional TUoS (or modified load export charges)

Inter-regional transmission charging arrangements provide a mechanism for exporting regions in an interconnected system to charge importing regions a modified load export charge (MLEC) for facilitating the transport of electricity.

The MLEC applying to each neighbouring region is determined on a net basis, reflecting that all regions both import and export electricity. The net charges or receipts from Victoria's neighbouring regions are then incorporated into the TUoS revenue requirement. If the net amount is a charge, it means an increase adjustment to the TUoS revenue requirement, and if a receipt, it means a reduction adjustment to the TUoS revenue requirement.

3.4.4 National transmission planner costs

A portion of the Australian Energy Market Operator's (AEMO's) national transmission planner costs is allocated to VicGrid in its capacity as a CNSP for Victoria.

VicGrid makes a number of subsequent adjustments to the prices it charges for under its Pricing Methodology, including an adjustment to recover Victoria's allocation of AEMO's national transmission planner function fees.

3.4.5 AusNet increment

In accordance with the NER, VicGrid is required to pay AusNet the difference between AusNet's share of AEMO's participant fees and the provision made for those fees in AusNet Services' 2022-27 revenue determination. If the difference is a negative amount, then it is deemed to be zero.

3.4.6 Ministerial Orders under the NEVA

At times, Ministerial Orders made under the NEVA may now direct VicGrid to procure and contract for augmentation-related services or specified non-network services. The Order will specify how VicGrid is to undertake or procure the service and may allow VicGrid to recover the associated costs (alternatively, the Victorian Government may fund VicGrid directly). Where an Order allows VicGrid to recover costs through charges in respect of prescribed transmission services, VicGrid will include those costs in its TUoS revenue requirement, to the extent provided in the Order.

3.5 Over- and under-recovery from previous years

VicGrid considers any recorded or expected surplus or deficit from prior years as it determines the TUoS revenue requirement for the forthcoming regulatory year. In the first year of VicGrid operation, this will include AEMO Victorian Planning's prior period accumulated surplus or deficit[5].

Any accumulated surplus from previous years that is expected in the current year may reduce the TUoS revenue requirement for the forthcoming year. Conversely, any accumulated deficit from previous years that is expected in the current year may increase the TUoS revenue requirement for the forthcoming year. These adjustments ensure that VicGrid's TUoS revenue requirement is calculated on a full cost recovery and non-profit basis.

4. Reporting on this Revenue Methodology

On an annual basis, prior to the commencement of the forthcoming year, VicGrid will publish a report that outlines the forecast revenue and costs for the current year, as well as the budgeted revenue, costs and accumulated surplus or deficit applied to the forthcoming year.

This information will be published on VicGrid's website together with TUoS prices prior to the commencement of the forthcoming year.

5. Declared network functions

The NEL, the NER and the NEVA confer on VicGrid various functions including:

- To plan, authorise, contract for, and direct, augmentation of the declared shared network
- To provide information about the planning processes for augmentation of the declared shared network
- To provide information and other services to facilitate decisions for investment and the use of resources in the Victorian electricity industry
- To provide shared transmission services by means of, or in connection with, the declared shared network
- To carry out early works
- To disclose information held by VicGrid to other persons or bodies in accordance with the NEL and NER as modified by the NEVA
- Renewable energy zone (REZ) planning functions
- Landholder payment functions

[5] Prior to VicGrid, AEMO Victoria Planning was responsible for declared network functions in Victoria and served as the CNSP for Victoria until 31 October 2025.

- Any other functions, related to the declared transmission system or electricity network services provided by means of or in connection with the declared transmission system, conferred on it under the NEL or the NER
- Any other functions, related to the declared transmission system or electricity network services provided by means of or in connection with the declared transmission system, conferred on it under a law of Victoria

VicGrid may determine fees and charges for services provided under the NEL and the NER[6]. The fees and charges for a service are to be determined on a non-profit basis that provides for full recovery of the costs of providing the service and consistently with the requirements of the NER.

6. Interpretation

(a) In the event of any inconsistency between a provision of the NEL, NER, NEVA or regulations and this document, the provision of the NEL, NER, NEVA or statutory rules will prevail to the extent of the inconsistency.

(b) This document is to be construed so as to give full effect to any right of recovery which VicGrid has under the NEL, NER, NEVA, statutory rules, an order or any other instrument.

(c) In this document, a reference to a section, rule or clause of any other document is to that section, rule or clause as amended, varied, replaced or substituted and includes any new section, rule or clause of the other document dealing with the same or substantially the same subject matter, even if it has been moved or renumbered.

[6] Section 52 of the NEL. For this purpose, “service” includes the performance of statutory functions.

7. Abbreviations

Acronym	Meaning
AEMO	Australian Energy Market Operator Limited
AER	Australian Energy Regulator
CNSP	Coordinating Network Service Provider
DSN	declared shared network
DTSO	declared transmission system operator
NEVA	*National Electricity (Victoria) Act 2005*
MAR	maximum allowed revenue
MLEC	modified load export charge
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
RAB	regulated asset base
REZ	renewable energy zone
TUoS	transmission use of system
UoSA	use of system agreement

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