Friday, 30 October 2026

Chloe Hicks
Director, Access Establishment
VicGrid
GPO Box 527
Melbourne VIC 3001

CEC submission on VicGrid's 2028-33 pricing methodology consultation paper

Summary

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing more than 900 leading businesses across renewable energy and energy storage. We are committed to accelerating Australia's transition to a clean energy future as rapidly as possible while maintaining a secure and reliable electricity supply for customers.

The CEC welcomes this opportunity to comment on VicGrid's proposed changes to the determination of transmission use of system charges for Victoria for the regulatory control period 2028-33.

The CEC supports the objective of making transmission charges more cost reflective but considers VicGrid should proceed cautiously with the proposed reforms. Broad time-of-use pricing may not materially change the behaviour of transmission-connected customers because wholesale electricity prices, contractual supply arrangements and ancillary-services markets generally provide stronger signals. Many large loads also have limited operational flexibility, creating a risk that the proposed tariffs increase costs without delivering corresponding improvements in network utilisation.

The CEC recommends a more targeted approach that distinguishes between the cost of constructing or reserving transmission capacity and the costs caused by its subsequent use. Capacity-related charges or transparent capital contributions should reflect the infrastructure required for a customer's connection and its credible demand ramp-up profile. System-condition-based charges could then focus on demand during critical or coincident system peaks, while discounts during periods of spare capacity and abundant renewable generation could encourage more efficient network use. The CEC also supports retaining the existing prescribed and negotiated connection options for energy storage systems and considers that no change to those arrangements is presently warranted.

Phone: +61 3 9929 4100
Fax: +61 3 9929 4101
info@cleanenergycouncil.org.au

Level 20, 180 Lonsdale Street, Melbourne, VIC 3000, Australia

cleanenergycouncil.org.au

ABN: 84 127 102 443

The remainder of this submission will provide additional context in relation to these regulatory matters.

Postage stamp versus time of use pricing

In relation to the consultation questions set out in Box 3.1 of the consultation paper, the CEC understands VicGrid's reasoning for considering the introduction of time of use pricing as opposed to the historically smeared postage stamp pricing arrangements. This being because network benefits are not currently strongly reflected in customer charges, and increasing load on the transmission network during periods of high rooftop solar and utility-scale solar PV output can:

- increase utilisation of under-used network capacity;
- reduce minimum demand challenges to the extent this appears in the transmission network;
- reduce utility-scale renewable energy curtailment; and
- improve generator revenues.

However, the CEC is not convinced that making the changes suggested by VicGrid will result in the intended outcomes. This is because for transmission-connected customers, energy market signals are generally a stronger signal than transmission use of system charges. For example, transmission-connected loads – whether data centres, smelters, or industrial processing sites – are more likely to respond to:

- changes in wholesale market prices – low or negative prices;
- their contractual supply agreements – power purchase agreements;
- opportunities to operate in the frequency control ancillary services market; and
- demand response incentive arrangements.

As such, there is a risk that changing the basis for the calculation of transmission use of system charges could impact the ability of these participants to engage in the wholesale electricity market and associated ancillary services markets. There could also be unintended consequences where AEMO directs a market participant to operate during a pricing window in which the facility incurs additional costs.

It should also be noted that large transmission connected loads often have limited opportunity and capability to flex their load to take advantage of temporal time of use signals. This is generally true of large industrial baseload demand (for example, aluminium smelters) and traditionally data centres have behaved much like these loads with high 24-hour utilisation, high continuous load factors of around 70-90 per cent, and very high uptime requirements (above 99 per cent) – that is, the data centre and its services remain operational and accessible to users at least 99 per cent of the time.

The data centres being installed today are more flexible than they were five years ago and can provide some flexibility through workload shifting of those functions that are not latency-sensitive (these generally consist of functions such as web searches, cloud applications, financial transactions, and real-time services). Options may include moving computational workloads between facilities, delaying non-urgent workloads and scheduling AI model training during more favourable off-peak periods. However, this flexibility is much less than many policymakers and regulators assume.

This is why, from a transmission-pricing perspective, the CEC considers there is a real risk in assuming large loads can simply "absorb surplus solar generation". Some certainly can for short periods of time (often during emergency conditions on the power system), but a considerable proportion of existing and proposed transmission-connected demand will remain relatively flat and inflexible, even under strong price signals. As such, the CEC is not supportive of VicGrid's proposed approach to changing transmission use of system charges to be more time of use based.

Overstating agreed contract maximum demand

As noted in VicGrid's consultation paper there is a valid issue with speculative capacity reservation, particularly for large loads such as data centres, hydrogen projects, and new industrial facilities where demand may ramp up over several years. But there is an important distinction between charging customers for transmission capacity that has been reserved or constructed specifically for them and deeming, for charging purposes, that an arbitrary percentage of their contracted maximum demand represents their appropriate contribution to network costs. In our view, this arbitrary minimum percentage of contracted maximum demand represents a poor proxy for those costs.

TUoS should instead reflect the capacity that is required to be constructed, maintained or reserved to facilitate the customer's connection, recognising agreed and credible demand ramp-up profiles. This would more closely align charges with the causer-pays principle while avoiding inefficient penalties on new loads whose operations are progressively commissioned.

A capacity-based component could then be complemented by system-condition-based transmission charges, including as set out in the section below, the potential for coincident and/or critical peak pricing and discounts for consumption during periods of spare network capacity and abundant renewable generation. Such an approach would address speculative capacity reservation while simultaneously providing stronger incentives for customers to use the transmission system in ways that reduce, rather than increase, long-term network costs.

Alternatively, consistent with the causer-pays principle, it is important to distinguish between causing transmission capacity to be built or reserved and causing costs through the subsequent use of that capacity. A transparent capital contribution, similar in concept to Western Australia's fixed capital contribution, could provide a more direct mechanism for ensuring that large new loads contribute towards the incremental transmission investment required to facilitate their connection. This would reduce the need to recover capacity-related costs through arbitrary assumptions about the proportion of contracted maximum demand that should be subject to ongoing TUoS.

Once the costs associated with establishing or reserving capacity have been appropriately recognised, ongoing TUoS should increasingly reflect how the customer actually uses the shared network. Coincident and critical peak charging could ensure customers make a greater contribution where their demand coincides with the periods driving network investment, while discounted charges during periods of spare network capacity and abundant renewable generation would encourage flexible loads to improve utilisation of existing infrastructure. This combination would provide a more economically coherent expression of causer pays than a uniform minimum-demand threshold, while retaining protections against speculative reservation of scarce transmission capacity.

Potential alternative approaches

If VicGrid considers more sophisticated transmission pricing approaches, rather than simple exemption or full charging under postage-stamp, CMD or demand-based time-of-use arrangements to be more appropriate, the CEC recommends considering alternatives that more accurately reflect how transmission-connected customers use the system. A more dynamic framework combining critical peak pricing and/or coincident peak pricing could better align customer charges with their contribution to the underlying costs of the transmission system.

Critical peak pricing has the potential to impose materially higher transmission charges during a limited number of periods when the network is under the greatest stress, rather than treating every hour of peak-period consumption alike. In addition, coincident peak pricing can complement this by linking part of a customer's TUoS liability to its demand at the time the relevant transmission network, zone substation or connection point reaches its peak demand. Together, these arrangements would provide large flexible loads, including data centres, electrolysers, energy storage systems (ESS), and some industrial processes, with a stronger commercial incentive to reduce or temporarily shift demand when additional consumption is most likely to exacerbate network constraints. This would strengthen the causer-pays principle: customers whose demand materially contributes to network peaks would bear a greater share of the resulting costs, while customers capable of avoiding those peaks would have a meaningful opportunity to reduce their TUoS exposure.

Importantly, the reform could be further supplemented with additional elements such that it does not operate solely through higher peak charges. For example, it could be paired with discounted TUoS during designated low-demand or renewable-rich periods, creating both a penalty for consuming when transmission capacity is scarce and a reward for consuming when capacity is abundant. As noted in the VicGrid consultation paper, this could help make better use of the periods of relatively low net network demand during the middle of the day when solar generation is high. Together with higher peak charges, this could provide transmission-connected load customers with the financial incentives needed to align their operations with the general shape of the overall demand profile on the network. The framework would shift transmission pricing from primarily a cost-recovery mechanism into a more effective network utilisation signal. As such, a customer that maintains high demand during a small number of system-critical peaks would face higher charges, while one that actively schedules flexible consumption into periods of spare capacity could face lower charges.

Overall, combining critical peak and/or coincident peak pricing in conjunction with a possible discount for consumption during renewable-rich periods would provide a more economically meaningful signal than the present TUoS structure for flexible demand. While more complicated than the simpler daily time-of-use pricing structure being proposed by VicGrid, it would better distinguish between demand that contributes to transmission congestion, investment or network augmentation requirements and demand that facilitates better use of otherwise underutilised capacity.

Treatment of energy storage systems

The CEC notes that in Victoria to date, ESS projects connected to Victoria’s transmission network have generally 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.

We also note the commentary from VicGrid on the expected increase in the number and utilisation of ESS assets in the future and their reliance on the shared transmission network could become significant. While the CEC shares VicGrid's concerns about whether the broader system benefits delivered by ESS continue to justify the current arrangements, we strongly agree with VicGrid's position that no changes be proposed to the current approach at this time.

In relation to the AEMC consultation process noted in the VicGrid paper concerning the 2021 Integrating energy storage systems into the NEM rule-change process, we note the AER explicitly advised that storage should not be exempt from TUoS and DUoS charges because exempting them had the potential to distort efficient storage location decisions. That is, the charging exemption could influence not only whether storage was built, but where and at which network level it was connected. In response to these concerns, the AEMC adopted a framework that mirrored the status quo that:

- retained existing transmission charging arrangements; and
- allowed transmission-connected storage to choose between:
  - a prescribed shared transmission service (and therefore required to pay prescribed TUoS charges), or
  - a negotiated transmission service at a negotiated price that may potentially be extremely low or zero.

That is, despite this consultation process, the AER's position on transmission charges for ESS has remained consistent: storage should not receive a blanket exemption from these charges, but storage proponents should retain flexibility to connect under either prescribed or negotiated transmission service arrangements.

As ESS expands its role in the electricity system and becomes increasingly able to provide essential system services traditionally provided by thermal generators, as noted above, the CEC is concerned that subjecting ESS to TUoS charges could impact the ability for storage proponents to efficiently respond to market price signals and engage in the wholesale energy market and associated ancillary services markets.

In summary, the CEC considers there is a strong argument that the AER's existing position recognises that ESS is neither a traditional generator nor a traditional load and therefore supports retaining the current arrangements whereby transmission-connected storage projects in Victoria can choose between prescribed and negotiated transmission services.

Conclusion

The CEC encourages VicGrid to adopt a cautious and proportionate approach to any transmission pricing reform as part of this process. Charges should reflect the costs customers cause through the construction, reservation and use of transmission capacity, while avoiding arbitrary thresholds or broad time-of-use arrangements that may weaken wholesale market signals and deliver limited behavioural change. More targeted measures, including capital contributions and critical or coincident peak pricing, warrant further consideration, but should be carefully designed and consulted on with industry as they are further developed.

The CEC also supports retaining the current flexibility for energy storage systems to choose between prescribed and negotiated transmission services and considers that no change to these arrangements is warranted at this time.

The CEC welcomes further engagement with VicGrid as it develops its pricing methodology for the period 2028-33, ahead of its submission to the AER. Should VicGrid have any further queries or require additional context, please contact James Eastcott at jeastcott@cleanenergycouncil.org.au.

Kind regards,

Martin Kennedy

General Manager – Market, Operations and Grid