Draft decision

AusNet Services electricity distribution determination
1 July 2026 – 30 June 2031

Attachment 16 – Connection Policy

September 2025

AUSTRALIAN
ENERGY
REGULATOR

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1	30 September 2025	8

Contents

16 Connection policy

We are required to make a decision on the connection policy that is to apply to AusNet for the 2025-30 regulatory control period (period). This may be the connection policy prepared by the distribution network service provider (DNSP), some variant of it, or a policy substituted by us under the National Electricity Rules (NER).[1]

We must approve the policy if we are satisfied that it adequately complies with the requirements of Part DA of Chapter 6 of the NER.[2]

A connection policy sets out the nature of connection services offered by a DNSP when connection charges may be payable by retail customers. It also sets out how those charges are calculated.

Specifically, as per the requirements set out in Part DA of Chapter 6 of the NER, the connection policy must:[3]

- set out the circumstances in which AusNet may:
  - require a retail customer or real estate developer to pay a connection charge, for the provision of a connection service under Chapter 5A
  - specify a static zero export limit in a connection offer for a retail customer
- be consistent with:
  - the connection charge principles set out in Chapter 5A of the NER[4]
  - our Connection charge guidelines published under Chapter 5A of the NER, and[5]
- specify:
  - the categories of persons that may be required to pay a connection charge and the circumstances in which such a requirement may be imposed
  - the aspects of a connection service for which a connection charge may be made − the basis on which connection charges are determined
  - − the manner in which connection charges are to be paid (or equivalent consideration is to be given)
  - a threshold (based on capacity or any other measure identified in the Connection charge guideline) below which a retail customer (not being a non- registered embedded generator, a real estate developer, a Registered Participant or an Intending Participant) will not be liable for a connection charge for an augmentation other than an extension.

1 NER, cl 6.12.1(21).

2 NER, cl 6.12.3(i).

3 NER, cl. 6.7A.1(b).

4 NER, cl. 5A.E.1.

5 AER, Connection charge guidelines, October 2024.

Flexible export limits

In October 2024 we released the Export limits guidance note. The note is a non-binding document which provides clarity on the regulatory framework necessary to facilitate the effective implementation of export limits.

One of the objectives of the guidance note is to establish 'guard rails' for the development and use of flexible export limits to protect consumers and enable owners of consumer energy resources (CER) to maximise the value from their investments in a manner that delivers benefits to all consumers.

In the guidance note we set out our expectations on how a DNSP connection policy can support greater transparency and understanding in the way flexible exports operate and support consumer uptake of CER.

16.1 Draft decision

We approve AusNet's connection policy as it complies with the NER and is consistent with the connection charge principles and our Connection charge guidelines.

16.2 Overview of proposal

AusNet's connection policy gives a broad outline of its connection services and dispute resolution processes. The policy also provides detailed information on when connection charges may be payable by its retail customers and how those charges are calculated.

16.3 Assessment approach

We examined AusNet's proposed connection policy against the requirements of Part DA of Chapter 6 of the NER set out above. We assessed whether it:

- is consistent with the connection charge principles set out in Chapter 5A of the NER, and our Connection charge guidelines, and
- contains all information for new customers prescribed by the NER.

We also engaged with AusNet on our expectations, and potential enhancements, relating to flexible export limits information.

16.4 Reasons for our draft decision

AusNet's original connection policy submitted as part of the proposal largely adhered to NER requirements. However, after reviewing the 2026-31 draft policy we sought:

- enhancements to requirements for micro-embedded generation and storage connections to support the introduction of emergency backstop requirements
- clarity regarding upfront payment thresholds
- language changes for accuracy, clarity and consistency
- better alignment with the AER Export limit guidance note, and

- amendments to address the distinction between the connection policy and model standing offer approval processes and the applicability of pre-calculated capital contributions.

AusNet amended its original proposed connection policy to address issues noted above. Overall, the document is now more accurate and compliant with better transparency and clarity to support customers connecting to the electricity grid.

16.4.1 Tax liability and data centre capital contributions

AusNet's overall proposal highlighted in the context of connections expenditure that 'new customer types' are a new key driver in the forthcoming period. New customer types include:

- hybrid and battery connections
- data centre connections, and
- connections for public electric vehicle (EV) charging stations and dedicated EV bus charging infrastructure at depots.[6]

The customer contribution rate for large (and for all connection) is determined by the AER prescribed formula, set out in each connection policy. The large majority of connection services provided to connect these customers are classified as standard control services (SCS) for which these customers will be required to make a contribution to the cost of connecting.

AusNet's connections policy aligns customer contributions for SCS with the prescribed formula and accords with the Connection charge guidelines. However, an overarching principle of the guidelines is to limit cross subsidies. We identified that changing market conditions associated with significant new load from large connecting customers like data centres could cause an extensive cross subsidy related to tax costs. Given this, we considered that there may be some scope to address this tax cross subsidy through the connection policy.

For the 2021-26 regulatory period the AER approved an AusNet proposal to include the net tax liability arising from capital contribution from large embedded generators. This proposal was designed in part to reduce the cross subsidy paid by its customers to large embedded generator connections (that were considered to be bespoke and generally only benefiting the individual applicant) and to address risks associated with the high degree of uncertainty over the volume of these connections. Some of the same factors are relevant to data centres and we engaged AusNet to review its approach on this tax cross subsidy.

In response, AusNet recognised that there is merit in alternative cost recovery options that allow for the recovery of tax upfront from the connecting customer. AusNet considered that "this would address the difficulty of forecasting the cost, customer contributions and volume of these connections for the upcoming regulatory period, which introduces inherent risk for customers and networks and creates the potential for cross-subsidisation".[7] These cross subsidies have the potential to be significant for large connections.

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6 AusNet, Electricity Distribution Price review – 2026-31 Regulatory Proposal', January 2025, p.161.

7 AusNet, Information request #0028, July 2025.

The AER welcomes feedback on AusNet's connection policy overall and the suggested alternative cost recovery option for the recovery of tax upfront from the connecting customer. After meeting with AusNet we anticipate that its connection policy regarding the tax treatment of capital contributions for large load customers will develop as part of its process to submit a revised proposal and expect AusNet to seek customer views on this issue. The question on the most suitable threshold at which to charge the tax component is integral to our final decision and will impact AusNet's final proposal related to the forecast estimated corporate income tax amount for the 2026–31 period.

We note that an important principle is that the distributor does not 'double-dip' or recover this tax cost (or any other costs) through different revenue mechanisms. A capital contribution may only be required if the provision for the costs has not already been made through the existing distribution use of system (DUoS) charges or an applicable tariff. It is therefore important that this tax cost is not included in the post-tax revenue model for the purposes of calculating the estimated corporate income tax amount for SCS to avoid double recovery if tax costs are to be recovered from the connecting customers. We expect that capital contributions from qualifying customers will be excluded from gross capex and capital contributions and therefore not reflected in the RAB or tax calculations.

16.4.2 AER approved connection policy

The approved connection policy has been published as Appendix A to this attachment. It contains a marked-up version reflecting all changes integrated into the document so far.

Assessment of aspects of the connection policy remain ongoing.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CER	consumer energy resources
DNSP	distribution network service provider
DUoS	distribution use of system
EV	electric vehicle
F&A	framework and approach
NER	national electricity rules
SCS	standard control services