Draft decision

CitiPower electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 16 – Connection policy

September 2025

AUSTRALIAN ENERGY REGULATOR

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We are required to make a decision on the connection policy that is to apply to CitiPower for the 2026–31 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 CitiPower 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 guidelines) 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 limit

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 do not approve CitiPower's connection policy and are substituting our own, as the original submitted policy does not comply with the requirements of Part DA of Chapter 6 of the NER.[6] The connection policy set out in Appendix A is to apply to CitiPower for the 2026-31 regulatory control period. Our consideration of CitiPower's proposed connection policy is detailed at section 16.4.

16.2 Overview of proposal

CitiPower'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.[7]

16.3 Assessment approach

We examined CitiPower'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 CitiPower on our expectations, and potential enhancements, relating to flexible export limits information.

16.4 Reasons for draft decision

We do not approve CitiPower's connection policy and will substitute our own as the original submitted policy does not comply with the requirements of Part DA of Chapter 6 of the NER.[8] Specifically, it is not consistent with:

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6 NER, cl 6.12.3(i).

7 CitiPower, 2026-31 Electricity Distribution Price Review Regulatory Proposal, Attachment 5.01 – Connection Policy (From July 2026) – January 2025.

8 NER, cl 6.12.3(i).

- the connection charge principles set out in Chapter 5A of the NER, or
- our Connection charge guidelines published under Chapter 5A of the NER.

In reviewing CitiPower's original connection policy for the 2026–31 period, we sought:

- enhancements to requirements for micro-embedded generation and storage connections to support the introduction of emergency backstop requirements
- language changes for accuracy, clarity and consistency
- better alignment with the AER Export limits guidance note, and
- fairness relating to the service pit exclusion from CitiPower's Pioneer scheme.

CitiPower amended its original proposed connection policy to address many of the 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 Service pits

However, CitiPower indicated that it did not intend to make a change to its policy regarding service pits and the Pioneer scheme, citing the costs incurred in administering service pits in the scheme. Following engagement with CitiPower we could not establish the extent of the incremental costs of administering a scheme including service pits. DNSPs have demonstrated the capacity to establish and administer Pioneer schemes for each original customer's works and bear the cost for establishing and administering these schemes. As per Chapter 6 of the Connection charge guidelines, each DNSP should include in its connection policy a Pioneer scheme. The AER considers that Chapter 5A allows retail customers to have a Pioneer scheme created for assets they fund, regardless of the service classification of these connection services. For this reason, we do not approve CitiPower's connection policy as it does not comply with the connection charge principles set out in Chapter 5A of the NER, and our Connection charge guidelines. We encourage CitiPower and any impacted stakeholders to provide further information on this Pioneer scheme issue as part of the substitute policy process.

16.4.2 Tax liability and data centre capital contributions

CitiPower's proposal highlights continued growth in data centre connections.[9] The customer contribution rate for data centre connections (and for all large connections) is determined by the AER's 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.

CitiPower'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 consider

9 CitiPower, Regulatory Proposal 2026–31 – Part B: Explanatory Statement – Revenue and expenditure forecasts, January 2025, p.57.

that there may be some scope to address this tax cross subsidy through CitiPower's connection policy.

For the 2021–26 regulatory period, AusNet Services proposed to include the net tax liability arising from capital contribution from large embedded generators, which was approved by the AER. This proposal was designed in part to reduce the cross subsidy paid by AusNet Services' 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 centre connections and in 2021 CitiPower sought to align its position with AusNet Services on the tax issue.[10] We engaged CitiPower to review its approach on the data centre tax cross subsidy.

In response, CitiPower reviewed its approach and signalled its intention to consult with its Customer Advisory Panel. CitiPower advised us that it intends to propose the following approach to its Customer Advisory Panel:

- from 1 July 2026, all sub-transmission and high voltage negotiated connections pay the net tax liability associated with their capital contribution
- net tax liability is defined as the net present value of tax over the life of the asset, taking into account the incremental revenue, incremental tax depreciation and applicable tax rate
- forecast capital contributions and gross capital expenditure associated with sub-transmission and high voltage negotiated connections are excluded from the tax calculation in the 2026–31 post-tax revenue model (PTRM)
- net tax liability payments are not deducted from the regulatory asset base in the roll forward model
- associated gross capex is not rolled into the tax asset base in the roll forward model.

CitiPower believes that all sub-transmission and high voltage customers should pay net tax liability because:

- there is no reason to discriminate against data centres, for instance United Energy will be constructing a 115 megavolt-ampere (MVA) connection for a battery energy storage system (BESS)
- some high voltage connections can be very large, for instance Powercor is currently constructing two 50 MVA high voltage connections
- sub-transmission and high voltage new connections are difficult to forecast
- the threshold is unambiguous whereas other threshold options may not be, for instance the definition of a data centre
- sub-transmission and high voltage connecting customers are better able to understand and absorb the net tax liability

[10] Powercor (CitiPower and United Energy), Information request #100, March 2021.

- the number of sub-transmission and high voltage negotiated connections are expected to be relatively small.[11]

CitiPower intends to propose to adopt the tariff class definitions of sub-transmission and high voltage so that the threshold is unambiguous and will align with the distribution tariff used to calculate incremental revenue.

While we are broadly supportive of CitiPower's proposal on the tax treatment of capital contributions for large load customers, our assessment of this aspect of the connection policy is ongoing. As part of the revised proposal process, we expect broader engagement on the topic and further information on why the sub-transmission and high voltage level is the most suitable threshold at which to charge the net tax liability directly to the connecting customer.

The AER welcomes feedback on CitiPower's connection policy overall and particularly on its proposal on the tax treatment of capital contributions. The question on the most suitable threshold at which to charge the net tax liability is integral to our final decision and will impact CitiPower's revised proposal related to the calculation of the estimated corporate income tax amount for the 2026–31 period. We note that an important principle is that the distributor must not 'double-dip' or recover the tax costs through multiple revenue mechanisms. A capital contribution on these tax costs should only be sought if they have not already been accounted for in the distribution use-of-system (DUoS) charges or an applicable tariff. Consequently, if these tax costs are to be recovered directly from the connecting customers, the forecast capital contribution amounts should not also be included in the post-tax revenue model for the purposes of calculating the estimated corporate income tax amount for SCS, as this would lead to double recovery – from both the connecting customers and the broader customer base.

We expect that capital contribution amounts from qualifying customers will be excluded from gross capex and capital contribution inputs in the regulatory models to ensure they are not added to the asset base or tax calculations to be recovered from existing customers.

16.5 AER substitute connection policy for CitiPower

An initial draft of AER's substitute connection policy, which will apply to CitiPower for the 2026-31 regulatory control period, is provided as Appendix A to this attachment. We note that the substitute policy development process remains ongoing, and that the appended substitute policy does not reflect the changes that CitiPower have committed to implementing and which are summarised in this document. We expect CitiPower to update the substitute policy in line with these changes, and to consult on these changes with their customers.

[11] CitiPower (Powercor and United Energy), Information request #0031, July 2025.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
BESS	battery energy storage system
CER	consumer energy resources
DNSP	distribution network service provider
DUoS	distribution use of system
F&A	framework and approach
MVA	megavolt-ampere
NER	National Electricity Rules
PTRM	post-tax revenue model
SCS	standard control services