Draft decision

Jemena 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 Jemena 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 Jemena 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 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 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 consumer energy resources (CER).

16.1 Draft decision

We approve Jemena'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

Jemena'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 Jemena'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
- contains all information for new customers prescribed by the NER.

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

16.4 Reasons for draft decision

Jemena's original connection policy submitted as part of the proposal largely adhered to the 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
- compliance with the Connection charge guidelines for upfront payment thresholds
- language changes for accuracy, clarity and consistency, and
- better alignment with the AER Export limit guidance note.

In responding to our queries, Jemena indicated that it did not receive specific feedback from customers on flexible exports. Jemena also expressed a reluctance to provide more detail in relation to flexible export services given the infancy of these emerging services. We expect

Jemena to ensure a transparent approach over the way export limit consumer connections are set as these services emerge for Jemena's customers.

Jemena made amendments to its original proposed connection policy to address issues noted above. We acknowledge Jemena's prompt approach to respond to these issues and consider that 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

Jemena's overall proposal highlights significant new load from large connections, including from data centres.

The customer contribution rate for large (and for all connection) 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.

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

For the 2021-26 regulatory period, AusNet 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's 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 Jemena also proposed that its 2021 connection policy would take into account the tax liability it will incur as a result of the capital contribution.[6] We engaged Jemena to review its approach on the tax cross subsidy.

In response, Jemena agreed with the AER that charging qualifying connecting customers for an amount equal to the net present value of the tax liability would reduce the level of cross subsidy by broader customers. Jemena has reviewed the treatment of tax payable arising from capital contributions, including AusNet's approach for large, embedded generators and its own prior proposals during the 2021–26 regulatory period. In light of this review and evolving market conditions, Jemena proposes to amend its proposed connection policy for the 2026–31 regulatory control period to remove the current cross subsidy associated with tax payable associated with capital contributions from large load connections. However, with this proposed change, Jemena seeks to extend this beyond data centres and apply it to all

[6] AER, Draft decision, Jemena Distribution Determination 2021 to 2026, Attachment 18 – Connection Policy, September 2020.

customers connecting at the 22kV level and above. It considers this approach preferable because:

- it applies a consistent methodology to all customers and does not discriminate based on the type of customer
- it removes the risk of customers masking or changing their business model in an attempt to bypass the charge
- data centres are not a defined term in the National Electricity Market (NEM), and this could be open to interpretation, and
- it allows the distribution business to focus on what it has control over, which is the network and its connections, rather than the connecting customer and their evolving business models.

Jemena submitted that the 22 kilovolt (kV) voltage level is the most suitable threshold at which to charge the tax component, as:

- volumes and costs become volatile above this threshold, making forecasting less predictable
- it is a threshold consistent with its tariff classes, and
- the assets deployed above and below this threshold are quite distinct.

Jemena considered that the revised connection policy ensures that the net tax costs caused by capital contributions for negotiated connections above 22kV—including for large data centres—are borne by the connecting customer. Jemena stated that these connections are bespoke and primarily benefit the individual customer, making it equitable and efficient for the associated tax costs to be directly attributed to them.

Jemena further stated that, fundamentally, this approach:

- aligns with the principle in National Electricity Law (NEL) s7A(2) that networks should have a reasonable opportunity to recover efficient costs; and
- removes risk borne by shared customers due to over-compensation and networks businesses due to under-compensation, which arises due to the uncertainty of forecasting tax allowances during a regulatory control period, enhancing transparency and trust in the regulatory process, as well as providing a more equitable allocation of costs.[7]

Jemena submitted that this change is in the long-term interests of electricity consumers and consistent with all relevant regulatory instruments, including the NEL, NER, AER guidelines and the 2026-31 Framework & Approach Paper. In particular, Jemena noted the user-pays principle, as articulated in the National Electricity Objective (NEO) under section 7 of the NEL, the connection charge principles in Chapter 5A and Part DA of Chapter 6 of the NER, as well as the AER's Connection charge guidelines (October 2024) support by this change.

Therefore, the amount payable will be:

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[7] Jemena, Information request #021, July 2025.

- the capital contribution, which is equal to the difference between the incremental cost attributable to the negotiated connection service and the incremental revenue

  plus

- for customers connecting at high voltage and sub-transmission levels (≥ 22kV), a tax payment that equals the net present value of tax costs over the life of the asset, taking into account the revenue, tax depreciation and the applicable tax rate.

In making this change Jemena is also proposing the corresponding change for large generator connections as approved for AusNet's 2021-26 period.

While we are broadly supportive of Jemena's proposal on the tax treatment of capital contributions for both large load customers and large generators, our assessment of this aspect of the connection policy is ongoing. We acknowledge Jemena's efforts to respond to our queries and promptly engage with customer representatives on the issue. As part of the revised proposal process, we expect broader engagement on the topic and further information on why the 22kV voltage level is the most suitable threshold at which to charge the net tax liability directly to the connecting customer. We also expect Jemena to address how any limitations that have prevented approval relating to tax changes for large generators in its 2021-26 connection policy have been overcome.

The AER welcomes feedback on Jemena's connection policy overall and Jemena's proposal on the tax treatment of capital contributions for both large load customers and large generators. The question on the most suitable threshold at which to charge the net tax liability is integral to our final decision and will impact Jemena'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.

Jemena has indicated that in making this change, it will report capital contributions separately from the tax recovered from connecting customers. 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 approved connection policy

The connection policy is 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
F&A	framework and approach
kV	kilovolt
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
SCS	standard control services