Final decision

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

Attachment 16 – Connection Policy

April 2026

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

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Version	Date	Pages
1	30 April 2026	12

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,[5] and
- 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.

16.1 Final decision

We have approved AusNet's connection policy (attached as Appendix A) because it now:

- meets the connection policy requirements set out in part DA of Chapter 6 of the NER
- is consistent with the connection charges principles set out in Chapter 5A of the NER, and
- is consistent with our Connection charge guidelines published under Chapter 5A of the NER.

Our final decision is to apply a variant of AusNet's proposed connection policy with respect to AusNet's proposed upfront recovery of tax costs.

This variation that we have required AusNet to make to its proposed connection policy is explained in the following sections.

16.2 AusNet's revised proposal

As part of the revised proposal AusNet's connection policy:

- incorporated changes associated with the AER's Export Limit Guidance Note including enabling the implementation of flexible exports
- proposed to recover tax associated with type 1 capital contributions upfront from data centres and all other customers connecting at its sub-transmission tariff class[6]
- proposed to recover upfront the incremental operational expenditure (opex) expected to be incurred to maintain connections assets for all customers connecting at it sub-transmission tariff class
- proposed to recover net tax and incremental opex from gifted assets for all large load customers > 1.5MW, including battery and energy storage systems (BESS), hybrids and other large load customers connecting at its sub-transmission network and connecting at lower voltage levels.[7]

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 the information for new customers as prescribed by the NER.

16.4 Reasons for decision

In reviewing AusNet's original connection policy (submitted as part of the original proposal) 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

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6 AusNet's sub-transmission tariff class is defined as ≥66kV.

7 AusNet, *Electricity Distribution Price Review - Revised Proposal 2026-31*, December 2025, p.151.

- 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 many of the issues noted above.

These enhancements were made prior to our draft decision and overall, the document is now more accurate and compliant with better transparency and clarity to support customers connecting to the electricity grid.

Our draft decision recognised that the continued strong growth in data centre connections could lead to a growing cross subsidy of the tax costs associated with type 1 capital contributions[8] from very large customers like data centres. We requested the Victorian distributors consider whether the net tax liability arising from type 1 capital contributions could be included as part of the upfront connection cost paid directly by the customer, rather than recovered from existing customers through standard control services (SCS) revenue, i.e., through distribution use of system (DUOS) charges.

In response to our draft decisions AusNet (along with the other four Victorian distributors CitiPower, Powercor, United Energy and Jemena) proposed to recover tax associated with type 1 capital contributions upfront.

In addition, AusNet proposed two further changes:

- to recover net tax from gifted assets (type 2 contributions) from for all large load customers >1.5MW connecting to its sub-transmission network and lower voltage networks, and
- to recover upfront the incremental opex expected to be incurred to maintain connections assets associated with new load customers connecting to its ST network.

16.4.1 AER decision on upfront recovery of tax liability associated with type 1 capital contributions

AusNet proposed to recover upfront tax costs associated with type 1 capital contributions from all large customers connecting at its sub-transmission (ST) network, not just data centres. The other four Victorian distributors also proposed to recover tax from all large

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8 Under our current regulatory framework upfront capital contributions (for connection costs) are classified as 'type 1 contributions'. Type 1 contributions are treated as income in the year received and subject to tax. This tax liability is included as part of the building block assessment using the post-tax revenue model (PTRM). This allows DNSPs to recover the estimated cost of tax during a regulatory control period in the standard control services (SCS) revenue requirement (i.e., through distribution use of system (DUoS) charges over the regulatory period). We note other contributions including gifted assets (in this context connection assets constructed for customers during new connections, which are subsequently transferred to DNSPs) are classified as 'type 2 contributions.

customers; however, each proposed a different threshold above which this tax should be recovered upfront.

AusNet proposed the threshold to be its sub-transmission (ST) tariff class defined as ≥66kV. Jemena also proposed its ST tariff class as the threshold. However, Jemena's ST tariff class is defined as ≥22kV. CitiPower, Powercor and United Energy proposed the threshold apply to all customers connecting at either their high voltage (HV) or ST tariff classes (which range from ≥1kV to 66kV).

AusNet engaged with stakeholders at its 'all in' November Revised Proposal forum on which customers should be charged tax (and opex) costs directly. AusNet submitted that the consensus from the room was that all commercial customers should bear their own costs. However, AusNet submitted that it considered this would represent a major change to the regulatory framework and so proposed to limit the direct recovery of net tax costs to sub-transmission connected customers only. AusNet considered this consistent with customer preferences to minimise cross-subsidisation.[9]

The Consumer Challenge Panel (CCP32) in their submission stated,

We commend AusNet for engaging with well-informed customers and other stakeholders in the decision-making process, resulting in an outcome based on the principle that the causer of costs should fund those costs, which should be in the long-term interests of customers.[10]

Our final decision is to apply a threshold:

- for load customers ≥22kV, and
- for embedded generators >1.5MW

instead of the threshold proposed by AusNet for all customers connected at its ST tariff class (≥66kV).

In making our final decision we considered AusNet's revised proposal, our draft decision, stakeholder feedback, feedback from the 5 Victorian distributors in response to information requests and our April 2021 final decision on AusNet Services Connection policy.[11]

We considered it important the same threshold above which tax is recovered upfront should apply to all Victorian distributors. Our decision supports neutrality and will help avoid potential distortions and inefficiencies that could arise with variable thresholds amongst different Victorian distributors.

A uniform threshold was supported by the Victorian distributors and stakeholders. AusNet considered it important to establish a consistent threshold across Victoria – a view also expressed by customers at its November Revised Proposal forum. AusNet stated that it was

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9 AusNet – *Electricity Distribution Price Review Revised Proposal 2026-31*, December 2025, p.152.

10 Consumer Challenge Panel (CCP32), *CCP32 Advice to the Australian Energy Regulator on the AusNet Services electricity distribution network AER Draft Decision and Revised Revenue Proposal (2026-31)*, January 2026, p.12.

11 See *AER - Final Decision - AusNet Services distribution determination 2021-26 - Connection policy Attachment 18*, pp.6-7.

open to adopting a threshold of ≥22 kV, as this would ensure alignment across Victorian DNSPs.[12]

We acknowledge and agree with the view expressed by AusNet, the other four Victorian distributors and stakeholders in extending the application to all large customer customers at the stated threshold.

Load customers

In deciding on a threshold above which tax associated with type 1 capital contributions from newly connecting load customers be recovered we considered the types of customers captured under different thresholds and on what basis the threshold should be defined. For example, by kilovolts (kV) or load (MW).

In response to information requests, we understand that most data centres connect at 22kV or 66kV. CitiPower, Powercor and United Energy indicated that data centres are connected at 11kV, 22kV or 66kV. Jemena indicated that data centres connect at 22kV or 66kV and AusNet advised that data centres are typically connected at 66 kV but noted, there is potential for some to connect at the high-voltage level of 22 kV.

While data centres are a key focus, we note that the threshold set at ≥22kV will capture other large customers. We considered a threshold set at ≥22kV is equitable across all large customers and ensures the connection policy is fair through a classification based on connection or electricity usage characteristics, rather than the type of service or industry provided by a new connection.

We also considered that a threshold at ≥22kV will both reduce the recovery of tax costs from the broader customer base associated with data centre and large customer connections and will capture connections with the potential for the greatest cross-subsidisation of tax costs associated with type 1 capital contributions. This is consistent with a key principle of our Connection charge guidelines to limit cross subsidies and manage affordability for customers.

We found a voltage threshold to be preferable to setting a threshold based on load. Voltage thresholds are physical in nature and cannot be varied once connected. This means there is a high degree of certainty for all parties (connecting customers, shared customers and the distributor) and less chance of cross subsidisation. Additionally, there is greater certainty for all stakeholders because the tax impacts are known up front using a voltage level threshold, and not dependent on forecasts (using a capacity assessment).

Our final decision for AusNet is to set the threshold at ≥22kV above which load customers pay tax associated with type 1 capital contributions upfront.

Embedded generators

An approach to recover upfront tax associated with capital contributions is not without precedent. The AER on 30 April 2021 approved AusNet's proposal to include the net tax liability arising from capital contributions from large, embedded generators >1.5MW for the

12 AusNet, *Response to AER Information Request #063*, 9 January 2026.

2021–26 regulatory period.[13] At that time we considered upfront recovery of tax would reduce the cross-subsidy paid by other customers to large, embedded generator connections and align the connection cost structure with transmission connected generators[14].

We note our final decisions for CitiPower, Powercor, United Energy and Jemena apply a threshold of >1.5MW for the recovery upfront of tax associated with type 1 capital contributions for all new connecting large, embedded generators. As discussed above we consider consistency across the Victorian distributors supports neutrality and will help avoid potential distortions and inefficiencies that could arise with variable thresholds amongst different Victorian distributors.

No double dipping

An important principle is that distributors do not 'double-dip' or recover this tax cost (or any other costs) through different revenue mechanisms. This is clear from the connection charge principle that a capital contribution may only be required if the provision for the costs has not already been made through the DUoS charges or an applicable tariff. In making our decision we have excluded the capital contribution from the post-tax revenue model to estimate the associated tax cost which would be charged to the broader customer base. This approach avoids double recovery of tax costs.

16.4.2 AER decision on upfront recovery of tax associated with gifted assets (type 2 capital contributions)

AusNet proposed to change its connection policy so it can recover net tax liability from gifted assets (type 2 capital contributions) for all large customers >1.5MW. AusNet considered that connection assets gifted by large customers constitute assessable income for tax purposes and unless this cost can be recovered directly from the connecting customer, it would not be recovered.

Following the Victorian Power Network (VPN) decision[15] we understand AusNet does not currently face this tax cost. In response to further information requests AusNet considered it likely to face this tax cost in the future as it had identified customers it considered do not fit the VPN Case, including battery energy storage system (BESS), wind & solar farm connections, embedded generators on the electricity distribution network and data centres. AusNet considered these types of transactions were not being undertaken at volume when VPN was litigated and therefore it does not expect the exemption on gifted assets to apply to these customers.[16]

The Australian Tax Office guidance note does not appear to indicate that the VPN decision would not apply to these gifted assets. AusNet did not provide sufficient justification nor properly canvass its proposal with its stakeholders on tax issues associated with gifted

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13 AER, *Final Decision AusNet Services Distribution Determination 2021-26 Attachment 18 Connection policy*, April 2021, pp.6-8.

14 AER, *Final Decision – AusNet Services distribution determination 2021-26 – Connection Policy*, April 2021, p.7.

15 Victoria Power Networks Pty Ltd v Commissioner of Taxation [2020] FCAFC 169

16 AusNet, *Response to AER Information Request #063*, 9 January 2026.

assets. Therefore we have not been able to adequately assess the upfront recovery of the tax associated with gifted assets.

For these reasons we do not approve AusNet's proposal to recover upfront the tax costs associated with gifted assets in the 2026-31 regulatory period.

16.4.3 AER decision on upfront recovery of incremental opex

AusNet proposed to recover upfront the incremental opex expected to be incurred to maintain connections assets associated with new load customers connecting to its ST network and to recover incremental opex from new BESS and hybrid connections at both its ST network and at lower voltage level networks.

AusNet considered the same cross subsidy concerns that apply for recovery of tax associated with type 1 upfront capital contributions also apply to incremental opex, i.e., this cost will be cross subsidised by the wider customer base.

We found AusNet's proposal to be a significant change to how opex is recovered under the current framework. Following discussion with AusNet regarding our concerns AusNet proposed an amendment to its proposal to only recover incremental opex for the period between the customer's connection date (should a customer connect between 2026 and 2031) and the commencement of the subsequent regulatory period (i.e., post 2031). Post 2031 AusNet would incorporate this opex into its standard opex forecast through base opex and trend.[17] Instead of recovering the full lifetime opex upfront as proposed in its revised proposal.

We consider AusNet did not provide adequate justification or properly canvass its proposal with its stakeholders. The limited information means we cannot adequately assess the inclusion of this proposal in the policy.

For these reasons we do not approve AusNet's proposal to recover incremental opex expected to be incurred to maintain connections assets associated with new load customers connecting to its ST network and from new BESS and hybrid connections at both its ST network and at lower voltage level networks.

16.4.4 Augmentation unit rates

Upstream augmentation unit rates enable distributors to apply connection charges to address augmentation to the shared network required due to a new customer connecting to the distribution network. These charges support the recovery of the full marginal cost of reinforcement (MCR) in aggregate, from large customers who connect to the network.

In its revised proposal AusNet proposed increases to its augmentation unit rates compared to its initial proposal. We sought further information from AusNet to explain these increases. AusNet provided that these increases reflect the significant growth that has occurred between the two regulatory periods in the costs of delivering network augmentation and

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17 AusNet, *Response to follow up questions to AER Information Request #089*, 27 February 2026

connections projects, due to market movements in labour, materials, and delivery partner costs.[18]

Our analysis of historical costs suggests despite these increases AusNet's proposed charge rates for shared network augmentation for large residential and non-residential customers respectively is reasonable when compared to AusNet's historical average overall network cost and represents the long run marginal cost.

16.4.5 AER approved connection policy

The approved connection policy is appended to this attachment.

[18] AusNet, *Response to AER Information Request #099*, April 2026.

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