Final decision

Jemena electricity distribution determination
1 July 2026 – 30 June 2031

Attachment 16 – Connection Policy

April 2026

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,[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 Jemena's revised connection policy 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 Jemena's proposed connection policy with respect to the upfront recovery of tax associated with type 1 capital contributions.

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

16.2 Jemena's revised proposal

As part of its revised proposal Jemena proposed to recover tax associated with type 1 capital contributions upfront from all customers connecting at its sub transmission (ST) tariff class defined as ≥22kV.

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 the information for new customers as prescribed by the NER.

16.4 Reasons for decision

In reviewing Jemena'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
- 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.

Jemena amended its original proposed connection policy to address the issues noted above.

Many of 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.

16.4.1 Tax liability and data centre capital contributions

In our draft decision we 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[6] 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 Jemena (and the other four Victorian DNSPs CitiPower, Powercor, United Energy and AusNet) proposed to recover tax associated with type 1 capital contributions upfront. All 5 distributors considered upfront recovery of tax associated with type 1 capital contributions should apply to all customers above a defined threshold and not just data centres.

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

Our final decision is to accept Jemena's proposed threshold of ≥22kV for load customers and to apply a threshold of >1.5MW for embedded generators.

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

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 DNSPs.

A uniform threshold was supported by the Victorian distributors and stakeholders.

Jemena convened a meeting of the Energy Reference Group (ERG) on upfront tax recovery and reported the ERG's view that: the connecting customer should cover the tax cost proportionate to their specific connection request and the benefits they receive - this arrangement should apply to data centres and other large customers, limited to the connection component of the contract.[7]

The CCP32 observations/advice regarding Jemena's engagement with its ERG considered,

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6 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

7 Jemena, *Jemena Electricity Networks, 2026-31 Revised Proposal*, 1 December 2025, p.13.

This exercise was a good example of where the involvement of a group of well-informed customers and other stakeholders in the decision-making process directly resulted in an outcome which is in the long-term interests of consumers.

CCP32 supports the 'causer pays' principle inherent in the advice provided by the ERG.[8]

Other distributors like AusNet considered it important to establish a consistent threshold across Victoria – a view also expressed by customers at its November Revised Proposal forum. AusNet advised us that it was open to adopting a threshold of ≥22 kV, as this would ensure alignment across Victorian DNSPs.[9]

We acknowledge and agree with the view 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 the majority of data centres connect at 22kV or 66kV. Jemena noted data centres connect at 22kV or 66kV. 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. CitiPower, Powercor and United Energy indicated that data centres are connected at 11kV, 22kV or 66kV.

While data centres is 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 DNSP) and less chance of cross subsidisation. Additionally, there is greater certainty for all

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8 Consumer Challenge Panel (CCP32), *CCP32 Advice to the Australian Energy Regulator on the AER Draft Decision and 2026-31 Revised Revenue Proposal for Jemena Electricity Distribution Network*, 19 January 2026, pp.8-9.

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

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 Jemena is to accept the proposed threshold at ≥22kV for load customers, above which load customers pay tax associated with type 1 capital contributions upfront. We note this is consistent with Jemena's ST tariff class as set out in its tariff structure statement.

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 2021–26 regulatory period.[10] In making our 2021-2026 decision for AusNet Services we considered this change would reduce the cross-subsidy paid by other customers to large, embedded generator connections and would align the connection cost structure with transmission connected generators[11].

To align with our 2021 decision for AusNet Services and for consistency across the Victorian distributors our decision is to set a threshold of 1.5 MW for the recovery upfront of tax associated with type 1 capital contributions for all new connecting large, embedded generators >1.5MW.

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 existing 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 approved connection policy

The approved connection policy is appended to this attachment.

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

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

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