



## **Capital Contributions Policy**

**Pursuant to:**

**Electricity Distribution Information Disclosure Determination 2012**

**Section 2.4.6**

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## 1.0 Purpose

In accordance with the Electricity Distribution Information Disclosure Determination 2012 clause 2.4.6, the purpose of this document is to describe and provide an understanding of Eastland Network Limited's (ENL), policy regarding;

- The requirement for Capital Contributions associated with requests from customers relating to connections to ENL's network and/or alterations to existing network connections or network assets.
- The economic considerations and principles applied when developing and applying the policy.

## 2.0 Scope

This policy is applicable to all customer initiated requests received by ENL that involve;

- New connection points.
- Alterations to existing connection points requiring network upgrades or extensions or downgrades of existing network assets.
- New subdivision reticulation including "infill" housing.
- Alterations to existing network assets. This includes the relocation of existing network infrastructure.

This policy is not applicable to customer owned assets and the costs associated with installing or maintaining those assets.

## 3.0 Definitions

### Capital Contributions

A capital contribution is a contribution provided by the customer to ENL or a Network Approved Contractor when in order to facilitate a customer request additional network infrastructure is required to be installed or when existing network assets or infrastructure is required to be upgraded, downgraded, removed or relocated. Capital contributions, at ENL's discretion, may be in the form of vested assets, subsidised assets and/or cash.

### Customer

This is defined as a party (person, persons, company, corporation or any other legal entity) who deals with Eastland Network. This includes sub-dividers, developers and connection owners.

### **Customer Owned Assets**

Assets that are owned by the customer and/or for which the customer has on-going responsibility. Generally these assets are installed on the customer's property on the load side of the customer's demarcation/connection point to the network.

### **Network Assets/Infrastructure/Reticulation**

Electrical distribution assets, (eg. lines, cables, transformers, fuse pillars and switchgear) owned and operated by ENL for the purpose of distributing electricity to end user consumers.

### **Vested Assets**

Network assets that are installed at the customer's cost and upon commissioning and at ENL's discretion, have their ownership, (and on-going maintenance responsibilities) transferred to ENL.

The mechanism for transferring the ownership of these assets and their value, (usually the cost of their installation) is set out in a Vesting Contract.

### **Network Approved Contractor**

Contractors who are authorised/approved by ENL to work on network assets. This contractor approval/authorisation is necessary to ensure that ENL's obligations for Public Safety Management and the Electricity Safety Regulations are met and that ENL technical standards relating to network design, construction and maintenance are adhered to. Providing compliance to ENL network contractor approval standards can be demonstrated and maintained there is no restriction on individuals or entities becoming ENL Network Approved Contractors.

Only Network Approved Contractors are able to undertake all work at the point of connection to customer assets and carry out any work on network assets.

A list of currently approved Network Approved Contractors is provided on ENL's website or from the Gisborne office in Carnarvon Street,

### **Subdivision**

Any division of property or sections that requires approval from a regulatory body.

### **Infill Housing**

Any existing domestic reticulated section that requests additional domestic connections or load increases, (but is not necessarily legally subdivided) and where the existing installed network is not sufficient to meet the increased capacity requirements.

### **Demarcation/Connection Point**

The point on the network where the customer/consumer is connected. Generally this is the point where the responsibility for equipment transfers from ENL to the customer.

## **4.0 Background**

ENL owns and operates distribution networks that supply consumers throughout the greater Gisborne, East Coast and Wairoa regions. Recovery of the costs associated with providing and maintaining supply to existing consumers is through published standard distribution charges.

As an Electricity Distribution Business, ENL is regulated business under Part 4 of the Commerce Act 1986. Accordingly ENL pricing for distribution services is subject to control in line with the Commerce Commission's *Electricity Distribution Services Default Price Path (DPP) Determination 2012* which within 5 year regulatory periods effectively sets the allowable annual revenue ENL can achieve against its existing regulated asset base, (RAB).

In accordance with regulatory requirements ENL sets its distribution pricing based on current and forecast operating and investment requirements for the existing network and existing consumers. The resultant standard charges are spread across large groups of connections that fall within specific bands dictated by network location and capacity requirement. Because of the long life of the assets involved and customer churn in relation to connections, it is not practical to single out specific connections and lock them into cost specific distribution charges that might include the recovery of new connection and/or network alteration costs.

Also as the future volume of occurrence, cost, future utilisation and life of new connections and other customer driven network expenditure is difficult to forecast with any certainty, these costs are not incorporated into the standard distribution charges. Further it would be inequitable to expect existing consumers through increased standard charges to meet or subsidise specific network costs initiated by new or other existing customers.

Accordingly ENL has developed and implemented a “causer pays” capital contribution policy with regards to all costs related to customer initiated requirements resulting in network asset or infrastructure upgrading, downgrading, removal or relocation. For consistency regulation requires that the value of capital contributions received is netted off the value of ENL's regulated asset base. This means that assets paid for by customers do not contribute to future revenue requirements and distribution charges.

## **5.0 Implementation of Capital Contribution Policy**

In all cases where a customer's request and/or requirements necessitate any network extension, alteration, upgrade or downgrade ENL requires a capital contribution to a value that fully, (100%) funds the work required.

ENL will provide a reasonable explanation regarding all specific capital contribution charges and how they were determined and/or general information on its Capital Contribution Policy, within 10 days of receiving a reasonable request from a customer.

### **Implementation Processes**

Because of significant variations in the scope, scale and cost of work required to be undertaken to meet specific customer initiated requests it is not generally practical for ENL to set a series of standard capital contribution fees, (exceptions to this are detailed below). Therefore in general, application of the ENL capital contribution policy requires that the level/value of customer capital contribution required to meet customer's specific requirements/requests are identified on an individual basis.

ENL Quality Manual 4 Section2 Connections, full description of the processes to be followed to identify and determine the level/value of customer capital contribution required to meet customer's specific requirements/requests on an individual basis. In summary these processes involve the following steps;

- The customer makes application, via a Network Approved Contractor, relating to their requirement for new or altered service.
- Based upon customer supplied information, ENL investigates the application and determines the scope and scale of network extension, upgrade or downgrade required to meet the customer's request and ensure that ENL's technical standards and any regulatory requirements, (eg. Electricity Safety Regulations 2010), are maintained.
- As required ENL produces scoping documentation in such detail that will allow Network Approved Contractors to produce any detailed designs required and costings of the work to be undertaken. The scoping documentation also includes customer advice on the basis and extent to which any customer capital contribution will be required. Where required a Vesting Contract for the transfer of assets to ENL is produce.

- Based on the ENL scoping documentation, the Network Approved Contractor produces final designs for the work to be undertaken and costings for approval by the party responsible for payment, (this can be the customer and/or ENL). The customer is able to request that ENL issue the scoping documents to multiple Network Approved Contractors to achieve competitive pricing.
- ENL makes final approval of designs and parties responsible for payments approve pricing and enter into appropriate commercial arrangements with the Network Approved Contractor.
- Upon completion of the network extension/ upgrade network assets are transferred to ENL in accordance with the Vesting Contract.

The above process has the benefit to the customer that through their direct relationship with Network Approved Contractors they have the ability to enact a competitive pricing process that delivers effective and efficient results.

Other aspects of the ENL's implementation of the Capital Contribution Policy are as follows;

#### **Network Extensions/Upgrades/Downgrades**

As determined and scoped by ENL, when extensions or upgrades to the existing network are required to enable a supply for a new connection/s, or alterations to an existing connection, (ie. load increase/decrease), the Customer will be required to engage directly a Network Approved Contractor and pay 100% of the costs of the works. It is usual that the commercial arrangement for the cost of carrying out the works will be strictly between the customer and the Network Approved Contractor.

Further contribution may be charged to the customer where the increase of load necessitates the development of sub-transmission assets.

The network extension/alteration will not be authorised to be lived by ENL until the full handover /vesting requirements have been met and accepted by ENL and/or any customer payments have been received by ENL or the Network Approved Contractor.

#### **New Subdivisions / Developments**

ENL receives notification from Gisborne District Council (GDC) and Wairoa District Council (WDC) of proposed new subdivisions / developments. ENL will request and provide information to the relevant parties on its requirements in relation to electricity reticulation for the proposed subdivision or development.

As determined and scoped by ENL , the subdivider/developer will be required to will be required to engage directly a Network Approved Contractor and pay 100% of the costs of the works for any network connection, network extension or network upgrade as required reticulate the subdivision. It is usual

that the commercial relationship for the cost of carrying out the works will be strictly between the customer and the Network Approved Contractor.

Further contribution may be charged to the customer by ENL where the increase of load necessitates the development of sub-transmission assets.

The network extension/alteration will not be lived in by ENL until the full handover /vesting requirements have been met and accepted by ENL and/or any customer payments have been received by ENL or the Network Approved Contractor.

### **System Reinforcement**

Where it is determined that the provision of additional capacity or upgrading of the existing network assets, beyond that required by the Customer/s is advantageous to ENL, costs will be split on a pro-rata basis between reinforcement required by the Customer and the reinforcement required by ENL. ENL will make the final determination regarding any system reinforcement and the Customers share of the total cost. These costs and calculations will be disclosed to all involved parties.

### **Rebate for Existing Assets**

Where an existing asset is required to be replaced with the replacement costs being funded by the Customer then a rebate may be given for the remaining value of the old asset. The amount of the rebate is based on the calculation of the depreciated value (straight line) of the existing asset against the standard life for that asset type/class as disclosed in the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses 30 August 2004. Any rebate given is solely at the discretion of ENL.

### **Reapportionment**

If a customer applies to connect to any of ENL's assets that a customer has already either wholly or partially contributed towards, the Customer may be required to reimburse the original customer for a share of the cost of providing the assets. The calculation of this share will be undertaken by ENL and is at ENL's discretion. The costs and calculations are disclosed to all parties involved. The time period for any reapportionment will be detailed in the asset vesting contract created for the original customer.

### **Enhanced Supply**

When a Customer requires a supply with enhanced electrical characteristics or enhanced reliability beyond that which would normally be provided, then the Customer may be required to meet the additional costs incurred in providing facilities to satisfy those requirements.



### **Relocation of Network Assets/Infrastructure**

Where network assets are legally and/or by right installed on private property, any customer requirement/request to relocate and/or alter those assets will, ( if ENL is in agreement to meet the customer's request), require the customer to make a capital contribution to the full value of the work to be undertaken. The capital contribution cost where require will include easement costs.

Where required by the appropriate controlling authority to relocate network assets in the road reserve, Sections 32 & 33 of the Electricity Act 1992 will be applied to apportion cost responsibility between ENL and the controlling authority.

### **Standard Capital Contributions**

The following describes the instances when ENL charges standard capital contribution fees;

#### **Infill Housing**

The existing network infrastructure installed in some older locations on the ENL network does not have sufficient spare capacity to supply increased loading caused through intense subdivision of existing sections and the installation of infill domestic housing. As the resultant load increases are unpredictable and sporadic with small incremental increases over time, it is inevitable that the low voltage reticulation and the transformers in these areas reach full capacity and need to be upgraded or additional infrastructure installed.

To meet the cost of the eventual network upgrades, ENL charges a standard Infill Housing fee. This fee is in addition to other capital contribution costs that might apply in order to meet a customer's specific requirement or request.

The Infill Housing Fees is classified into two categories based on the existing section size:

Zone 1 – 1500sqm or less (predominately urban areas) \$2,200.00 ex GST

Zone 2 – 1501sqm or more (predominately rural areas) \$3,315.00 ex GST

Infill Housing fees are determined by averaging the actual costs of per new section/connection of Infill Housing upgrade work that has been completed in the past 3 years. The fees are reviewed on an annual basis.

### Mahia Sub-transmission Levy

Due to an unprecedented level of sub-divisional activity in the Mahia Peninsula area beginning in 2006, ENL has determined that to meet the resultant increased capacity demands, that extensive investment in sub-transmission network upgrading and extension is required.

To meet the cost of this investment ENL requires a specific sub-divider capital contribution. This contribution, as detailed in the table below, is a per section charge and is in addition to any other specific subdivision capital contribution for network extensions or upgrading that may apply.

These charges are payable directly to ENL in full before any connection is made to the network.

New/Additional Connection Required Capacity	Expected Applicable ENL Price Code	\$Contribution Required (ex GST)
3kVA	PNL 0003	1688.00
3 – 30kVA	PDL 0030 PNL 0030	7483.00
> 30kVA	PNL 0100 PNL 0300 PTH 0300 PNL 0500	Upon application
Existing Connection Capacity Upgrade		Upon application

The Mahia Sub-transmission levies have been calculated by dividing the total cost of the sub-transmission upgrade by the total allowable number of new connections that the upgrade will enable to be supplied.

## 6.0 Capital Contribution Policy Pricing Principles

ENL standard distribution pricing is required to adhere to the Electricity Authority's Pricing Principles which were developed in 2010. These same principles have also been incorporated into the Commerce Commission's Electricity Information Disclosure Determination 2012. Accordingly ENL's Capital Contribution Policy is required to be consistent with these pricing principles.

ENL believes that it's Capital Contribution Policy to be consistent with the pricing principles in that;

- The "causer pays" basis of the policy ensures that there is no cross subsidisation of new customers by existing customers.
- The customer contributions are based on the actual cost of meeting the customer's requirements/request. As such they accurately account for specific circumstances that are

relevant to the customer and allow the customer to evaluate the economic value of the service and make price/quality trade-offs.

- The customer contribution policy is transparent and the impact on stakeholders is considered when setting/updating the policy.