

Northpower

# Capital Contributions Policy

Effective from: 9 September 2022

## 1 Introduction

### 1.1 Purpose

This Network policy sets out Northpower's policy for what developers, sub-dividers and other customers seeking a new connection to the network should contribute towards the cost of providing their new connection, and existing consumers should contribute when they want to upgrade the capacity of their connection.

### 1.2 Scope

The scope of this Network Policy relates to all new and existing connections on the Northpower electricity network.

### 1.3 Application

This Network Policy took effect on 1 July 2021, and has been subsequently amended to remove the transition mechanism as the transition period has expired, and to transition the pricing into a separate schedule. We have also made minor clarifications to the policy.

This policy applies to all applications for a new connection, or to increase the capacity of an existing connection, which are approved by Northpower from 1 July 2021 onwards.

#### **Offers to connect priced under previous policy**

Where we approved a connection application prior to 1 July 2021, if you did not accept our offer to connect and pay the capacity charge in full within 30 days of our offer being issued (or other timeframe as indicated on the offer), the offer will now need to be requoted under our current policy.

#### **Accepting our offer**

If you do accept our offer to connect and pay the capacity charge within 30 days of the offer being issued (or other timeframe as indicated on the offer), the electrical works must commence as soon as reasonably practicable thereafter (i.e. as soon as the electrical contractor is available, provided they are not unduly delayed). If the electrical works are in Northpower's sole opinion unduly delayed, including due to non-availability of an electrical contractor or completion of civil construction, a new application will be required which will be charged under the then current policy.

## 2 Definitions

Terminology	Definition
Capital contribution	An amount paid to contribute towards the costs of existing capacity, or new assets to extend the network or increase its capacity.
CIW	Customer initiated works means works initiated by a customer to connect to our network or change their existing connection.
Grid Exit Point	The point at which Northpower’s network connects to Transpower’s national grid.
Network Approved Contractor (NAC)	Businesses that have been approved by Northpower to perform design, construction or maintenance work on, or in close proximity to, Northpower’s network and that have a current <i>Network Approved Contractor Status Agreement</i> executed with Northpower.
Network extension	A network extension is where you purchase, install, and vest to us new electrical assets such as poles and conductors, to extend our network to reach your proposed point of supply.
“our” “us” “we”	Means Northpower Limited’s electricity distribution business.
Regulatory Asset Base	This is an asset register calculated using regulatory accounting rules. We earn a return on our investment in electrical distribution assets, as calculated under these rules.
“your”, “you”	Means a party applying to establish a new connection to the network, or to upgrade existing capacity.

## 3 Introduction

Northpower owns and operates the electricity distribution network which delivers electricity to more than 60,000 homes and businesses across the Whangarei and Kaipara regions. The network covers a wide geographic area from Pouto in the south to Bland Bay in the north, and includes Whangarei city and Dargaville township, as well as extensive rural areas.

Northland is one of the fastest growing regions in the country. Growth in coming years is expected to be concentrated in Mangawhai, Marsden Point, and within Whangarei urban areas around Maunu, Tikipunga and Three Mile Bush Road.

We recover the cost of owning and operating the existing network through lines charges. However, when new customers want to connect, or existing customers want to increase their capacity, it may be necessary to upgrade the network to provide that capacity.

This policy sets out the contribution from new customers towards the existing capacity in the network, and how we fund the cost of upgrades to provide new capacity required for new customers wanting to connect, and existing customers wanting to increase their capacity.

## 4 Principles

In developing this policy we have considered how we fund growth fairly, balancing the interests of all stakeholders – both current and future – and reflecting our consumer ownership structure.

The following principles underpin our approach:

- Deliver low electricity lines charges for consumer owners.
- Meet our consumer owners' perception of "fair".
- Avoid cross subsidies between existing and new consumers.
- Simple, understandable, and easy to administer.
- Support network growth to build economics of scale and reduce average cost to consumers.
- Encourage sustainable economic growth in Northland.

## 5 Electricity Industry Participation Code and Electricity Distribution Information Disclosure Determination 2012

This document describes Northpower's policy for determining capital contributions and meets the requirements of clause 2.4.6 of the Electricity Distribution Information Disclosure Determination 2012.

It also describes our policy for determining connection costs for Distributed Generation, and complies with Part 6 of the Electricity Industry Participation Code 2010.

## 6 Application

To connect to the Northpower network or make a change to your existing connection, you need to complete an 'Application for work' on our website ([www.northpower.com](http://www.northpower.com)). We will assess your connection requirements, and let you know if a **network extension** and/or a **capital contribution** is required.

## 7 Network Extension

A network extension is where you purchase, install, and vest to us new electrical assets such as poles and conductors, to extend our network to reach your proposed point of supply. Your **point of supply** is the handover point from our network to your private service line or reticulation, and is generally the pillar or fuse at or near your property's boundary.

This generally means extending the 400V lines from their nearest point to your point of supply, but depending on the required capacity and location of your proposed connection, you may need to fund the build of new assets back to (or re-conductor back to) an 11kV line, or a substation. You will need to cover all costs to build and connect these new assets. While Northpower will provide the 11kV/400V transformer, you will need to cover the costs to install the new transformer including removing and replacing those already in situ if applicable.

You must use a Network Approved Contractor to undertake network extensions. Network extensions must comply with our standards before we will accept the assets for vesting and before connecting the new assets to our network. If the assets cross over private land, we will require easements to grant us a legal right to own and access assets on the private land. Further information can be found in our *Customer Initiated Works Standard*.

The network extension must then be vested (i.e. gifted) to Northpower. Northpower then takes over the responsibility for operation and maintenance of the assets, and ultimately replaces them (at Northpower's cost) at the end of their useful life. Northpower does not include vested assets in its **Regulatory Asset Base**, and therefore does not earn a profit from the assets which are vested to it. We effectively operate and maintain these assets at cost, until the assets are replaced at their end of their useful life (generally 30-50 years).

#### **Exception to transformer installation costs**

There is a limited exemption to the above requirement for the connecting or upgrading customer to pay for the installation of a new or replacement transformer to meet their capacity requirements. Northpower will meet the cost to remove an existing transformer and install a new transformer in situations where the following is met:

- There is an existing Northpower owned transformer in situ with a capacity of at least 50kVA.
- A new load consumer wants to connect a single new connection to the existing transformer at a standard capacity (i.e. 1ph for Residential, or either 1ph or 3ph for Business).
- There is insufficient capacity on the existing transformer for the new load consumer to connect.

This exception does not apply to developments with more than one new connection.

## 8 Capital Contribution

Electrical assets such as lines and substations have very long useful lives, and often take many years to plan, consent, and construct. It is also much quicker and cheaper to build an asset with surplus capacity, than to complete a number of small upgrades over its life. As such, when we build new electrical assets, or replace them at the end of their useful lives, we often build additional capacity into the asset in anticipation of future growth.

The **capacity charge** is your contribution towards the cost of the existing network assets which you are going to connect to. This charge allows us to fund the building of new assets and capacity to replace the capacity which your connection will take up, ready for the next new connection. By charging a capacity charge, we avoid existing consumers having to fully fund the cost of building capacity to connect new consumers through their lines charges.

We have standardised charges for new standard capacity Residential, Small, and Medium business connections. For all other new connections, and all changes to the capacity of existing connections, there is a per kVA charge. Very Large Industrials (who have significant assets dedicated to their supply) may have individual terms negotiated on a case by case basis.

If the assets required to be constructed by Northpower to connect your proposed connection would materially exceed the capacity charges we reserve the right to charge the full cost of the new assets to you in lieu of the capacity charge.

Please refer to the Capacity Charge Schedule on our website for details of the current capacity charges.

**Specific terms:**

- The capacity charge quantity must reflect the capacity of the fuse which the site has been physically fused at. For example, if a site's demand is estimated at 40kVA, and charged for based on that capacity, it cannot be fused at higher than 40kVA.
- The only exception to this is where Network requires a customer to spread their load over multiple phases for balancing purposes (e.g. 60amps across 3 phases). The customer in this scenario would only pay for a standard 1ph connection, but would be required to only load the combined 3 phases to 60 amps. The baseline for any subsequent upgrades would be the standard 1ph connection that they have paid for.
- Unmetered telecommunication cabinets and equipment may be charged for at the actual kVA required provided it is under 3kVA. For all other connections there is a minimum capacity of 15kVA, including for caravan connections. Where a site with less than 15kVA is upgrading, it will need to upgrade to 15kVA as a minimum.
- Where there is not sufficient capacity in the existing network for the customer's proposed development and Northpower would need to build new capacity to connect that development (for example a new substation) it may require the developer to commit to and pay the Capacity Charge for all of the proposed connections in that development prior to Northpower commencing design and construction of the required works.
- Capacity charges will not be refunded if the capacity is relinquished or subsequently not required by the customer.
- Capacity allocated to a premise or property may not be transferred or reallocated to another premise or property.
- For the purposes of calculating the capacity charge, diversity may only be applied within the connection (i.e. consider the highest possible concurrent load at the ICP). Diversity within a development or subdivision may not be considered for the purposes of calculating the capacity charge.

## 9 Distributed Generation Charges

Where a new distributed generator connects to the network, we are limited under the Electricity Code to only charging the incremental cost of connecting the distributed generator. This means a generator can use existing capacity in the network at no cost, but once that capacity is utilised and more capacity is required, the next connection will pay all of the incremental costs.

As such, there is no capacity charge for existing infrastructure. However all incremental costs to extend the network to a distributed generator, or to build capacity for a distributed generator, will be charged to the distributed generator. This includes the costs to procure and install transformers, and any network upgrades.

Where there is demonstrable cost saving to Northpower as a result of distributed generation, these may be passed through to the distributed generator as network support. To produce cost savings for us, generation generally needs to coincide with peak periods on our network, to be injected at locations where there is network constraints, and to be material enough to defer or avoid investment.

As such we will review connections over 1MW to determine whether there are cost savings resulting to the network. For connections under 1MW we do not consider that any cost savings will result.

## 10 Very Large Industrial

Northpower may, at its discretion, invest in specific assets for specific clients who are charged under the IND price category code. In these cases, it may elect to charge the consumer for the upstream assets used to supply that customer in their distribution pricing rather than through a capital contribution and therefore the capital contribution could be nil.

## 11 Adherence to pricing principles

Northpower's capital contributions policy is consistent with the Distribution Pricing Principles published by the Electricity Authority in June 2019.

Our capital contribution prices are designed to signal the cost of providing additional capacity on our network. They are subsidy free, as they are less than or equal to the standalone costs of building new capacity, and greater than the avoidable cost.

The charges reflect the cost of providing new capacity and new connections on the network, and thereby incentivise consumers to utilise existing capacity more efficiently. They also encourage efficient network alternatives, by closely reflecting the cost of new connections to the network.

Northpower