Northpower

Northpower Network Capital Contributions Policy

1. Purpose

From 1 March 2013, Northpower's policy in relation to Capital Contributions that may be required to partially fund new network extensions and service lines must be publicly disclosed in accordance with clauses 2.4.6 to 2.4.8 of the Electricity Distribution Information Disclosure Determination 2012 published by the Commerce Commission on 1 October 2012.

2. Definition of a Capital Contribution

In terms of the Information Disclosure Determination, a Capital Contribution is an amount payable to an Electricity Distribution Business (such as Northpower) when new electricity distribution assets need to be constructed to facilitate a supply of electricity to a premise or premises. Examples of circumstances in which new distribution assets need to be constructed are when a new subdivision is developed or when a new building is constructed.

Electricity assets include overhead lines, overhead cables, underground cables, ducts, switches, distribution transformers and ancillary fittings.

3. Northpower's Methodology

In terms of the Commerce Commission's definition, Northpower uses an "Asset Vesting" process rather than a "Capital Contribution" process. There is one exception which is covered in Section 6 of this document.

<u>Asset Vesting process</u>: When new electricity assets need to be constructed to facilitate the connection of premises to the Northpower electricity distribution network, the following process typically applies:

- The person requiring the new assets (subdivider, building owner or consumer) pays for most of the cost of the construction of the new assets;
- Northpower's Electricity Distribution Business contributes to the cost of the new assets using a methodology defined in Section 4 of this document;
- The person for whom the assets have been constructed formally vests the assets to Northpower; and
- The assets are added to Northpower's asset register and Northpower takes responsibility for the operation and maintenance of the assets and, ultimately, replacement of the assets when they come to the end of their useful lifetime.

The new assets are usually constructed by Northpower's in-house contracting division. However the developer or landowner may also engage a contractor not affiliated to Northpower. In all circumstances, the assets must be designed and constructed to standards set by the Northpower

Electricity Distribution Business (EDB) and must comply with all statutory requirements. Northpower EDB will not accept ownership of assets that do not meet the required standards and in some cases will not allow them to be connected to the network. Provided the standards have been met and the assets are vested to Northpower, the process outlined in steps 1 to 4 above, and the amounts in Section 4 following, are applicable.

Note that the distribution transformers are supplied (and financed) by Northpower EDB and remain the property of Northpower EDB. As such, they are not included in the vesting process. Please refer to Section 6 for more details.

4. Northpower's Contributions

For standard residential subdivisions, Northpower's contribution (to assets being vested to Northpower) is presently $453.33 (+ GST);

For light commercial premises, $453.33 (+ GST) is also applicable; and

For larger installations, the contribution from Northpower is based on the expected consumption in the first 12 months at a rate of $62.22 (+ GST) per MWh.

The contribution from Northpower is only made once.

5. Conditions under which Northpower will make a Contribution

Northpower will only make a contribution towards the cost of the new assets if the assets are definitely going to be vested to Northpower.

If the assets are not vested to Northpower, the entity that paid for the asset will remain responsible for the upkeep of the assets, or the purchasers of sections in the subdivision may end up with that liability.

Note that service-lines and service cables from the point of connection to the network (typically on the pole or pillar at the boundary) to the premise are generally not vested to Northpower and remain the responsibility of the landowner and consumer.

6. Network Capacity Charge

Except in a few cases on large industrial sites, Northpower always supplies and owns distribution transformers and charges for the capacity for new connections points to the network, rather than for the actual costs of the transformer itself.

The Network Capacity charge is currently $90.96 (+ GST) per kVA allocated. The kVA allocation is assessed on expected peak usage, not on the fuse rating.

Premises that are on the ND9 pricing plan (Demand-based line charges exceeding 150kVA) pay a capacity charge as a component of their ongoing line charges and are therefore generally exempted from the upfront Network Capacity charge.

The Network Capacity charge is effectively a Capital Contribution in terms of the Commerce Commission's definition.

7. Compliance to Pricing Principles

Northpower considers that the policies outlined in this document are consistent with the Electricity Authority's Pricing Principles in that the costs of network extensions, in excess of the standard Northpower contribution, are fully recovered from the person initiating the requirement. This ensures that network extensions are not subsidised by existing consumers [Pricing Principle (a)(i)] and costs of investments are clearly signalled [Pricing Principle (a)(iii)].

8. Further Information

The information provided in this document is intended to be a high-level overview. Northpower's internal standards document NSM 2.1.20 contains considerably more detail. Northpower design staff will respond to specific queries from people planning projects that are likely to require extensions to the Northpower electricity network.

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