

A close-up photograph of a person wearing an orange high-visibility safety vest with reflective silver stripes. The person is holding a blue pen and writing on a white clipboard. Their left hand is resting on the clipboard. The background is blurred, suggesting an outdoor setting. The overall tone is professional and focused on safety and documentation.

Northpower

Changes to Capital
Contributions Policy

Background

The purpose of our Capital Contributions Policy is to set out how we recover the costs of growth on our network.

New customers connecting to the network take up capacity in our existing assets, including the 400V reticulation, 11kV feeders, substations, and sub-transmission lines. Over time, to connect new customers, we have to build new assets with increased capacity. 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.

We have recently reviewed our Capital Contributions Policy, as it has not had a comprehensive review for around 15 years. The challenge we were looking to address in this review was who should bear the cost of the additional capacity which we build for new customers connecting to the network - should these additional costs be funded by existing consumers through increasing lines charges, or be charged to the new consumers who are connecting?

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:

- Delivering low electricity lines charges for all of our consumer owners
- Meeting our consumer owner's perceptions of "fair"
- Avoiding cross subsidies between existing and new consumers.
- An approach that is simple, understandable, and easy to administer.
- Encouraging sustainable economic growth in Northland.

New Capacity Charges

Under the updated policy there will now be standard flat rates charges for most residential and general connections. New customers looking to connect a standard 63 amp x 1 phase residential, or up to 63 amp x 3 phase business connection will be able to plan with certainty around network capacity charges. It is also expected that this simplified flat fee per standard connection will decrease the time taken to process new connection applications. Larger non-standard connections will be charged a flat rate per kVA of capacity, which equates to the same charge as the standard rates.

This approach allows Northpower to invest in bulk capacity upgrades to make the per kVA cost of new capacity as low as possible for all customers connecting.

The new charges are based on what the capacity upgrades cost us, so they are less than replacement cost. However they are higher than the current capacity charges, because the current charges only cover the cost of the transformer provided by Northpower, and not the upstream costs to get the power to the transformer.

Benefits of new policy

In addition to continuing to provide access to our existing network assets and Northpower continuing to provide the 11kV/400v transformer at our cost, the new policy has two additional new benefits for developers:

- Where significant upstream capacity is required such as a new substation, under the current policy if capacity does not exist, developers are required to pay for this. Under the new policy, in most cases where the investment is supported by reasonable expected demand, Northpower will now build this capacity at its cost. A firm commitment and upfront payment covering the capacity to be available for the subdivision may be required before Northpower commences design and construction.

Note that this policy would not generally extend to Northpower paying for upgrading conductors or constructing new feeders from a substation, as this is a network extension and would continue to be payable as part of the development project costs.

- Under the current policy, there were sometimes situations where a customer wanted to connect to a transformer that was full, triggering the cost of switching the transformer for a larger one (noting Northpower provides the actual transformer, but the customer pays the cost of the removal of the previous transformer and installation of the new one). This has resulted in the first customers onto a transformer not having to pay this cost, and then the unlucky customer who triggers the upgrade having to pay the entire cost.

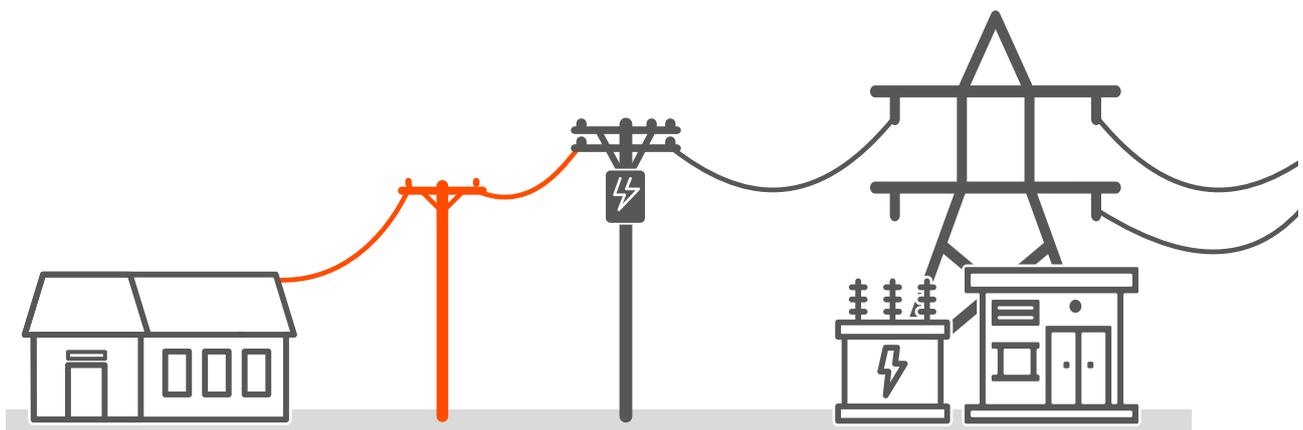
Northpower will now, in certain situations, fund the cost of switching the transformer for a larger one to avoid the situation where the last customer to connect to the transformer is inadvertently in the position of triggering an upgrade and paying the full cost of the works to upgrade to a larger transformer.

Network Extensions

There is broadly no change to network extensions. New customers are still required to extend the network to their proposed point of connection, and vest those assets to Northpower.

To simplify our processes, we will no longer pay a separate network contribution towards these assets. However this is partly offset by our capacity charge which is set below the actual full cost to connect new consumers.

The below diagram outlines what is generally defined as a network extension:



Impact on developers and consumers

We appreciate this is a significant change for developers. This change has been developed to balance the interests of developers and existing consumers, to avoid cross-subsidies from existing consumers towards the costs of new connections, and to deliver the lowest cost lines charges to all consumers over the long term.

Examples:

Example 1 – Simple subdivision

Customer A wants to subdivide their section and install power to boundary for the back section of their subdivision.

The customer puts in an application to Northpower for this work.



Northpower check the application and approve the connection as there is capacity in the closest transformer.

Old Policy:

The customer pays the cost of the network extension (ie: power to boundary) and a capital contribution of \$1,364.

Revised Policy:

The customer pays the cost of the network extension (ie: power to boundary) and a capital contribution of \$2,987.

Example 2 – Simple subdivision – no capacity at Transformer

Customer A wants to subdivide their section and install power to boundary for the back section of their subdivision.

The customer puts in an application to Northpower for this work.



Northpower check the application and there no available capacity in the closest transformer.

Old Policy

The customer pays the cost of the network extension (ie: power to boundary), as well as the cost of labour to swap out the transformer and a capital contribution of \$1,364. The total of the transformer swap can be around \$8 – 10K.

Revised Policy:

The customer pays the cost of the network extension (ie: power to boundary), and a capital contribution of \$2,987 (plus GST). Northpower meets the cost of supplying and installing the new transformer.

Frequently Asked Questions:

Q: When is this change effective from?

A: 1 July 2021

Q: What are the new costs?

A: The below table sets out the capacity charges from 1 July 2021

Category	Capacity Charge
Standard Residential (15kVA)	\$2,987 per connection
Standard Small Business (15kVA)	\$2,987 per connection
Standard Medium Business (45kVA)	\$8,960 per connection
Large business (over 45kVA)	\$199.11 per kVA allocated
Increases to allocated capacity	\$199.11 per kVA allocated
Very large industrial	Per contract

Q: I have a project that is waiting on a quote from Northpower - will this be charged at the new or old rate?

A: If your project was submitted for a design and estimate before 1 July 2021 we will apply the old capital contribution policy and rates.

Q: I have a quote that has recently expired from Northpower - how will that be re-quoted?

A: If you have a quote that was issued between 1 April 2021 and 1 July 2021, and it has passed the 30 day expiry, Northpower will re-quote the construction costs at current/new rates, but hold the capital contribution rates at old rates. This re-quote must be requested prior to September 30. From 1 October new rates will apply to all re-quotes. Note this will apply to ONE roll over/re-quote only. If the re-quote expires the new capital contribution will then be applied to subsequent quotes.

If you have further questions:

1. The designer assigned to your current project should be able to help with any questions related to how the change will affect the costs for your project.
2. Please call our customer care team on 0800 667 847 to discuss with one of our team.

