



**WP0520**

# **CAPITAL CONTRIBUTION POLICY**

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## 1. PURPOSE

This policy sets out Network Waitaki's requirements for payment of capital contributions and connection levies from customers requesting customer-initiated work on the distribution network, including new connections, connection alterations, changes in capacity, relocations and undergrounding.

This policy has been developed in accordance with section 2.4.6 of the Electricity Distribution Information Disclosure Determination 2012.

## 2. POLICY STATEMENT

### 2.1 Capital Contributions

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Network Waitaki's distribution lines charges are only sufficient to meet the normal operating and maintenance costs of the network, including the replacement of assets as they reach the end of their life. Lines charges do not cover the costs of new connections and network extensions as Network Waitaki considers that existing customers should not pay for or subsidise investments that will only benefit new customers.

Therefore, customers requiring an investment by Network Waitaki for a connection or an alteration to their supply that will be for their benefit only, or request relocation or undergrounding of network assets, will be required to meet the cost of the investment through a capital contribution.

Assets subject to a capital contribution will be owned by Network Waitaki, and the payment of a capital contribution does not confer ownership of those assets to the customer.

### 2.2 Connection levies

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From time-to-time Network Waitaki will need to make substantial high level network infrastructure investments to meet the growing demands of new and existing customers. These investments typically include sub-transmission lines and zone substations, and it is not possible to make them incrementally. Once the investment is made, the new capacity is used up over several years until the next step investment is made.

In accordance with the Electricity Authority pricing principles (Appendix 2), Network Waitaki does not consider it appropriate for existing customers to fund the capacity for new customers.

Therefore, Network Waitaki requires each customer requiring new capacity (either through a new connection or increased capacity from an existing connection) to contribute to the cost of providing sufficient long term network capacity through a connection levy.

The value of this contribution will be reviewed from time to time to reflect Network Waitaki's investment requirements to meet demand growth on the network.

### 3. APPLICATION

When a customer requires a new connection to the Network Waitaki network (including alterations to or increases in capacity from an existing connection) there are two types of investment made:

- The first area of investment involves the physical assets directly involved in extending or upgrading the network to the new customer's Point of Connection. Typically for a domestic connection, this will be the assets from the existing network to and including a new connection pillar on the road boundary or the establishment of an overhead fuse point at a pole adjacent to the property. In the case of a large connection, it may involve the extension of the high voltage network and the installation of a transformer.

This investment, involving the assets associated with the specific connection, is funded by the customer concerned through a **capital contribution** (paragraph 5).

- The second area of investment is in the backbone of the network which provides the overall capacity to carry energy from the National Grid to the area concerned. This typically involves the subtransmission network and zone substations which can only be constructed in large increments.

This investment involving the provision of existing and future capacity is funded by cash flow from existing operations, new debt, and from customers through the **connection levy** (paragraph 6).

With the exception of high voltage switchgear and transformers (and associated support structures), any new assets on the customer's property from the Point of Connection to the point at which electricity is utilised will be paid for by the customer and is considered to be a private service line. Further details can be found in the Service Line Ownership Policy.

### 4. DEFINITIONS

TERM	DEFINITION
<b>Capital contribution</b>	Customer contribution to meet the cost of connecting their load to the network, or towards the cost of relocation or undergrounding network assets.
<b>Connection levy</b>	Customer contribution towards the cost of providing long term capacity in the network.
<b>Non-standard connections</b>	Means connections that have non-standard technical requirements (e.g. lower or higher security and reliability), non-standard commercial arrangements, or where bypass of the network is considered

TERM	DEFINITION
<b>Point of Connection (POC)</b>	This is the point of demarcation where the Distribution Network ends, and the customer's privately owned line connects. The point of connection will generally be the location of the network owned isolation device which could be either Low Voltage (LV) or High Voltage (HV).

## 5. CAPITAL CONTRIBUTION

### 5.1 When a Capital Contribution is required

Customers wishing to connect to the network for the first time, or requiring an increase in supply capacity which requires new or upgraded assets, will be required to pay a contribution to off-set Network Waitaki's costs for providing the connection known as a Capital Contribution.

The amount to be paid is not a fixed sum (i.e. Network Waitaki does not have a standard schedule of contributions) and it is determined on a case-by-case basis by considering the estimated costs for the work required to provide the required capacity to the property boundary. The cost of work is based on contractor provided pricing where available or Network Waitaki will provide a quote using its knowledge of current prices.

Where single phase to three phase upgrades is required to supply new load, the customer will fully fund the cost of installation of the third phase conductor in addition to any connection levy payable.

If a new connection requires the use of existing assets that are still subject to a Capital Contribution from another customer, then the new customer may be required to pay a fair share of the previous contribution as outlined in paragraph 5.2 - Reapportionments.

Capital Contributions are payable at the time the work proceeds and prior to liveness, except in special cases for non-standard connections where alternative commercial arrangements may be considered by Network Waitaki.

#### Example 1

The situation represented in Figure 1 provides a typical example of how the Capital Contribution works. A customer wishes to connect a new house where there is no existing connection and no low voltage supply available.

The customer will pay the full cost of installing the transformer on the network (excluding the capital cost of the transformer), installation of the low voltage cable to the boundary, and the service pillar. The payment is the Capital Contribution, and the assets will be owned by Network Waitaki.

The customer will also pay for their own service line from the service pillar to the house which they will own.

As it is a new connection, a connection levy will also be payable for the nominated capacity of the new connection to contribute towards network infrastructure costs.

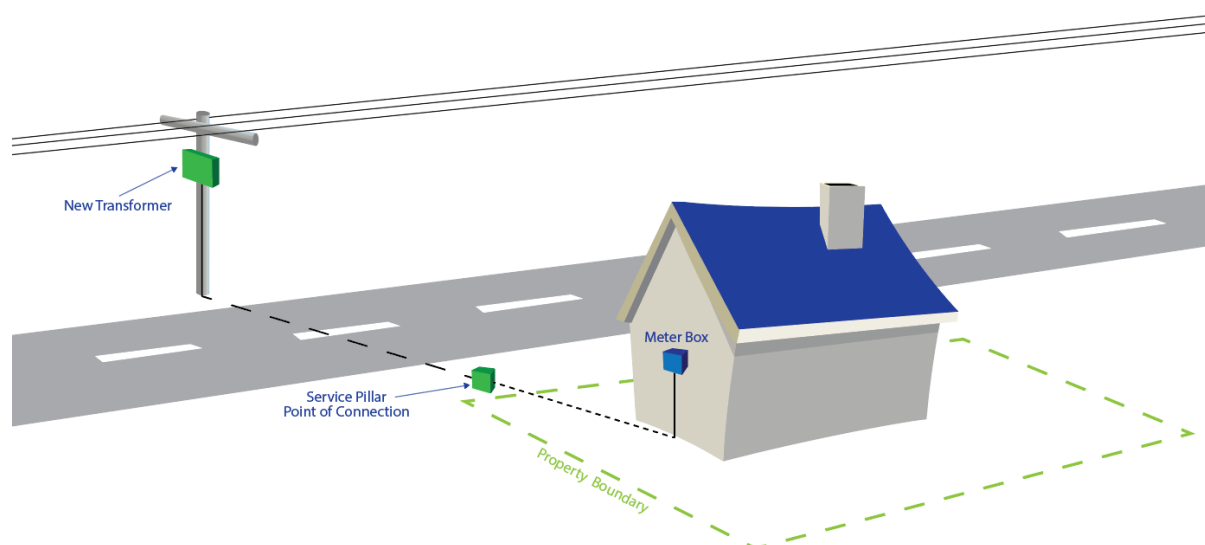


Figure 1: Illustration of simple new connection requiring a Network Extension

## 5.2 Reapportionments

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At Network Waitaki's discretion, a reapportionment of the direct network extension costs may apply where a new connection will utilise assets which other customers have paid for within the previous five years. (This does not apply to assets funded by subdivision developers, including multi-tenanted buildings and apartments).

Where reapportionment applies, the historic capital contribution towards the assets, depreciated over 5 years in a straight line, will be reapportioned between the affected customers based on their share of assets used. The reapportionment does not apply to the Connection levy charges as specified in paragraph 6. The additional customers shall pay a reapportionment charge of the depreciated install costs to Network Waitaki which in turn will reimburse the present owners of the premises that contributed toward the assets.

## 5.3 Selection of Contractors

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Work on any high voltage network must be undertaken by a suitably qualified, experienced and competent contractor.

Network Waitaki generally engages its internal staff to undertake network extensions and connect customers to the network. In some cases, it may select and manage approved contractors to complete this work on its behalf. Network Waitaki completes customer projects on its network on a cost recovery only basis and therefore considers it to be the most efficient means of delivering this work.

Customers and third parties may not undertake extensions, upgrades, or alterations of the Network Waitaki network.

However, customers may use suitably qualified external contractors to undertake some aspects of new connections (assets beyond the Point of Connection which they will retain ownership of) or work on their own high voltage assets on a case-by-case basis.

Further information on this is available by phoning or emailing Network Waitaki's customer connection team on (03) 433 0065 or [service@networkwaitaki.co.nz](mailto:service@networkwaitaki.co.nz).

## **6. CONNECTION LEVY**

### **6.1 When a connection levy contribution is required**

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The payment of a connection levy will be required prior to livening a new connection or the upgrade of an existing customer's connection point (except for non-standard connections, outlined later), in line with the following.

#### **1. Standard connections**

Where a customer requires the use of new capacity on the network, whether through a new connection or increased capacity from an existing connection, the customer shall pay a connection levy as specified in Section 6.2 and Appendix 1.

#### **2. Non-Standard connections**

All non-standard connections will be considered on a case-by-case basis consistent with the principles of this policy.

#### **3. Subdivision developments**

The connection levy will be required to be paid by the developer at the time of subdivision in order to reticulate power to the boundary of each lot.

Unless higher connection sizes are agreed, the following minimum connection levies will be applied:

##### Each serviced residential section

The levy shall be based on a single-phase load group of 0-15kVA with a fused capacity of 63 amps.

##### Each serviced commercial/industrial section

The levy shall be based on a three-phase load group of 16-30kVA with a fused capacity of 40 amps per phase.

The developer shall be responsible for ensuring that each prospective customer is made aware of the connection size for the relevant section(s) and that the customer will be required to fund the connection levy if they wish to increase the required fused capacity.

In special cases for non-standard connections, at Network Waitaki's discretion, alternative commercial arrangements may be considered for payment of the connection levy.

### **6.2 Connection levy charge**

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As described in Appendix 2 this policy must demonstrate consistency with pricing principles of the Electricity Authority. In accordance with these pricing principles, Network Waitaki requires that customers requiring new connections and capacity increases should contribute to the cost of meeting the growth in capacity required. Network Waitaki has determined that the most appropriate and equitable way of determining this customer contribution is by relating it to capacity requirements.



Loads are grouped together based on the required fuse size for the desired connection capacity, and this effectively represents the highest demand that can be connected in that band.

Connection levy charges are contained in Appendix 1.

The connection levy rates provide for a funding ratio for network investment recovered upfront (through the connection levy) and recovered over time (through lines charges). The rate also reflects Network Waitaki's wish to avoid uneconomic bypass and to support commercial development in the region.

## **7. MANAGING CAPACITY**

Network Waitaki encourages and incentivises customers to actively manage their capacity requirements by ensuring that any cost pertaining to any change in the connected capacity of a customer is borne by the customer.

### **7.1 Upgrading (increasing) capacity**

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Customers upgrading an existing supply will pay a connection levy for any additional capacity required based on the same rates as new customers.

Any cost of work associated with the change (e.g. installation of higher rated fuses, direct investment in a larger transformer) will also be payable by the customer and subject to a capital contribution.

### **7.2 Downgrading (decreasing) capacity**

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Customers downgrading an existing supply will only be liable for direct costs associated with the change (e.g. installation of lower rated fuses) but will not receive a refund of previously paid capital contributions or connection levies.

This policy also applies to Electricity Registry status changes. Where a customer's Electricity Registry status changes to inactive for a period of 3 months or longer, Network Waitaki reserves the right to consider this change an intention to decommission or downgrade capacity and upon the customer being restored to active status, may require that customer to pay a connection levy to restore capacity to their required level. In such circumstances, a connection levy shall only be payable for restored connections larger than 15kVA.

### **7.3 Decommissioning a connection**

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Customers decommissioning a connection will not be liable for direct costs associated with the decommissioning (e.g. work required to remove service line connections to the network, remove fuses, recover assets such as transformers, etc) but will not receive a refund of previously paid capital contributions or connection levies.

A customer decommissioning a connection and subsequently recommissioning the connection at a later date will be liable for the costs of commissioning and a connection levy as a new connection would be.

#### **7.4 Shifting connected capacity**

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Network Waitaki may consider, on request from a customer, transfer of a customer's connected capacity to another connection they own (either a new or existing connection), provided:

- The new connection is on the same feeder and is located closer on the circuit to the zone substation than the old connection.
- That all costs of establishing the new connection and decommissioning the old connection will be met by the customer.

#### **7.5 Undergrounding existing overhead lines or other relocation of network assets**

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Network Waitaki will consider the relocation or undergrounding of existing assets on a case-by-case basis. Requests will be assessed based on engineering, operational and risk factors, and in some cases, it may not be practicable or technically feasible to relocate or underground assets.

If a request to relocate assets is approved, Network Waitaki will determine the capital contribution payable by the customer to make the relocation economically viable (which may include the write-off costs of existing assets as well as the costs of installing new assets).

Where a relocation is requested in accordance with Section 32 of the Electricity Act 1992, then the costs shall be met in accordance with Section 33 of the Act.

## 8. APPENDIX 1 – CONNECTION LEVY CHARGES

### 8.1 Application Service Fee

This fee is payable on application for a connection or an increase in the capacity of an existing connection. It covers Network Waitaki’s administration and processing costs.

The service fee is \$295 plus GST for new installations.

The service fee is \$150 plus GST for capacity increases within the existing load group, and for new streetlights and other miscellaneous equipment that will not have an individual connection number (ICP) and will share an existing low voltage supply.

### 8.2 Streetlights and other Unmetered Loads

Streetlights and other Unmetered Loads	Connection levy
Connected to an existing LV or Streetlight Circuit	kW x \$201
Connected via sole use Transformer	15kVA charge

Table 1: Streetlights and unmetered loads - connection levy

### 8.3 Connection Levy Charges

The following table details the connection levy per load group and capacity size. All charges are GST exclusive.

Load Group kVA	Phases	Capacity (kVA)	Fuse Size (Amps)	Connection levy charges
0-15	1	14.5	63	\$2,912
16-30	1	23.0	100	\$4,619
16-30	3	27.7	40	\$5,563
31-50	3	43.6	63	\$16,067
31-50	3	55.4	80	\$20,415
51-100	3	69.3	100	\$25,537
51-100	3	86.6	125	\$31,912
51-100	3	110.9	160	\$40,867
101-200	3	138.6	200	\$51,074
101-200	3	173.2	250	\$63,824
201-300	3	218.2	315	\$80,407
201-300	3	246.0	355	\$90,651
201-300	3	277.1	400	\$102,111
301-500	3	346.4	500	\$127,648
301-500	3	436.5	630	\$160,850
301-500	3	491.9	710	\$181,265
501-750	3	554.3	800	\$204,259
501-750	3	692.8	1000	\$255,296

Table 2: Connection levy charges

## 9. APPENDIX 2 – PRICING PRINCIPLES

Section 2.4.6(1)(c) of the Information Disclosure Determination 2012 requires Network Waitaki to describe the extent to which its policy is consistent with the Electricity Authority's Distribution Pricing Principles (2019), set out as follows.

- (a) Prices are to signal the economic costs of service provision, including by:
  - (i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);
  - (i) reflecting the impacts of network use on economic costs;
  - (ii) reflecting differences in network service provided to (or by) consumers; and
  - (iii) encouraging efficient network alternatives
- (b) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use
- (c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:
  - (i) reflect the economic value of services; and
  - (ii) enable price/quality trade-offs
- (d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives

Network Waitaki considers that the Electricity Authority's ("EA") Pricing Principles (a), (c) and (d) are relevant to capital contributions. Pricing Principle (b) is applicable only to line charges and are therefore not relevant to capital contributions.

Network Waitaki considers that the capital contributions policy is consistent with the pricing principles in the following ways:

- Capital contributions seek to recover incremental capital costs associated with connecting a customer to the network or changing capacity at a site, including the full cost of dedicated connection assets as well as a contribution to network upgrade/reinforcement costs. Capital contributions are likely to be less than stand-alone cost given they only seek to recover incremental capital costs. That is, they do not recover administration, operations or maintenance expenditure or costs associated with the existing network assets, which are recovered in distribution prices.
- Consideration of reapportionment of capital contributions to the original customer on connection of another customer to the original assets also achieves the principle of being subsidy free, equal to or greater than avoidable costs and less than or equal to standalone cost.
- The level of available service capacity, as well as the impact of additional usage on investment costs, are both signalled upfront in capital contributions. The Capital Contribution signals the cost of connection of assets of a certain capacity

specification (e.g. in relation to fuses installed at the customer's premises). Whereas the Connection levy, signals that network capacity is finite and seeks a contribution for future investments in network reinforcement.

- While capital contributions do not explicitly recognise customer demand responsiveness, they do provide a price for connection to the network which customers may choose to accept.
- The capital contributions process also allows bypass considerations and negotiation of price and quality trade-offs to be resolved prior to connection. Higher levels of security, or particular service requirements, which are usually delivered through installation of specialist equipment (i.e. remote switching, circuit breakers, voltage regulators) or network redundancy (multiple circuit connections), is priced into the capital contribution.
- The policy applies to all technology-types connected to Network Waitaki's network, subject to our network connection and operations standards.
- We consider that the policy transparently sets out the criteria and methodology for charging of capital contributions. Capital contributions are only recovered once for a new connection. Service line construction is at market prices, with the customer not being obliged to accept any quotation. Network extensions are quoted transparently and priced on a cost-plus basis with margin. Network Waitaki is owned by a Consumer Trust with the principal objective of preserving and growing the value of the business for the long-term benefit of connected customers (consumers).