



Capital Contribution Policy

1 January 2021

Revision overview

| Date | Version | Changes |
|-------------|----------------|--|
| 1/3/2013 | 1.0 | Capital Contribution Policy released |
| 1/3/2014 | 2.0 | Update of policy to incorporate a single fixed charge for standard connections. |
| 4/12/2014 | 2.1 | Update of policy incorporates definition improvements to the new connection in section 2, inclusion of a modelled example in section 4 and changes to the Rate Card in Appendix A. |
| 03/12/2015 | 2.2 | Update of Rate Card standard connection charges and renaming of customer groups to align with revised names used in WEL's price schedule. |
| 21/7/2016 | 2.3 | Update of Relocations Policy in section 7 |
| 15/12/2016 | 2.4 | Update to Rate Card standard connection charges and undergrounding policy. Introduction of works application fee, re-design fee and relocation asset disposal charge. |
| 7/12/2018 | 2.5 | Update to Rate Card qualification criteria and section 14 based on current practices. |
| 7/09/2020 | 2.6 | Update to Rate Card qualification criteria and minimum charges. Update to Distribution Pricing Principles. |

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1. Purpose

The purpose of this policy is to provide a description of any potential capital contribution required by WEL Networks Ltd (WEL) when a customer requests a new or modified connection to WEL's electricity distribution network.

2. Scope

Capital contributions may be required for:

- New network connection points (requiring the creation of a new ICP)
- Modified connection points e.g. increases in capacity
- Subdivisions
- Relocation of network assets
- Undergrounding of overhead lines

WEL reserves the right to vary terms and conditions on a case by case basis at its sole discretion.

3. Definitions

| | |
|----------------------|--|
| Capital contribution | An amount paid by a customer for construction of assets or enhancement of the network at the time of the construction or enhancement. |
| ICP | Installation control point - the customer's point of connection to WEL's network. There is generally a meter at each ICP. |
| Rate Card | WEL's schedule of charges for capital contributions. |
| Upstream assets | Assets between a customer's point of connection and the national grid utilised to transport electricity to the customer's point of supply. |

4. Model used to calculate capital contributions

To calculate the capital contribution for a new project, it is first necessary to determine whether the project is a standard or a non-standard project (as defined by the Rate Card in Appendix A). If the project is standard, then the standard rate will apply. The model used to determine the standard rate takes into account the estimated future revenues and costs.

The model also provides a framework for determining the specific charges for other new and modified connections including commercial and industrial connections.

To determine a capital contribution WEL takes into account a number of factors which include:

- The cost of maintaining and operating the new connection.
- Impact of the new connection on WEL's network and its share of maintaining that network.
- The expected future revenue from the new connection.
- A capital contribution will be determined depending on whether the future revenue from the new connection is sufficient to cover the long run marginal cost of the connection.

Following are the steps incorporated in our model and in the estimation of capital contributions:

1. Estimates the cost of installing the new assets and the share of upstream assets that the new connection will be utilising.
2. Estimates the annual distribution revenue expected in the future from the new connection based on WEL's lines revenue prices.
3. Estimates the annual operational and maintenance costs of future supply based on the asset values.
4. Calculates the present value of the estimated surplus of future revenue (point 2) over future costs (point 3) – including an allowance for tax.

- The charge to the customer (capital contribution) is the difference (if any) between the present value from point 4 and the estimated cost of assets including installation (from point 1).

Below is an example showing how the customer contribution was calculated for a new non-standard connection (fuse capacity less than 110 kVA) recognised as a General customer under WEL's current price schedule -

| Steps in the Model | Description | Values |
|--------------------|---|------------|
| 1 | Cost of connection (cost of assets including a share of upstream assets, labour and services costs) | (\$18,452) |
| 2 | Present Value of the surplus (future revenue - future costs including an allowance for tax) | \$14,597 |
| 3 | Capital Contribution (Step 1 – Step 2) | (\$3,855) |

Note – the values in the above example are for illustrative purposes only. The connection costs and the contributions required will vary from case to case.

The final amount of capital contribution required will be determined by WEL. For administrative efficiency, WEL periodically sets standard rates for some types of connections. If WEL determines that a standard rate applies, the customer will be notified accordingly and subject to payment of the notified amount, the connection will proceed. In addition to any capital contribution required to make a new or modified connection to WEL's network, the customer is responsible for their own electrical installation, including the provision and installation of the line or cable from the network connection point to their own premises or plant.

5. Works Application Fee

Non-standard applications, relocations, undergrounding and load change requests will require an application fee to be paid upfront prior to assessment and notification of capital contribution payable. The application fee is to recover the cost of assessing the application should it not proceed. Should a capital contribution be required after assessment, the application fee paid will offset the total payable.

The application fee is two tiered and detailed below:

| Application Fee Type | Description | Fee Amount (excl GST) |
|----------------------|--|-----------------------|
| Simple Application | A straightforward application not requiring complex network design | \$1,000 |
| Complex Application | All other applications requiring an application fee | \$2,000 |

WEL may charge on a case by case basis the customer a re-design fee when the customer requests a change in scope from the initial design at a rate of \$100 (excl GST) per hour plus disbursements.

6. Standard Charges

WEL has established a standard charge for single and three phase Residential, including Residential subdivisions, and General connections. The rate and the guidelines to determine a standard connection are published in the Rate Card (Appendix A). Following application, WEL will assess each proposed connection and confirm if a standard charge applies. In this regard, WEL will determine in its sole discretion whether the standard connection charge or the non-standard connection charge applies.

7. Non-Standard

Revenue associated with the future supply of electricity to a new connection must cover the cost of operating and maintaining a new connection, as well as an appropriate share of the cost of operating

and maintaining upstream or shared assets. This future revenue must be sufficient to contribute to the upfront cost of assets associated with the new connection. WEL's intent is to require a capital contribution from a customer when the future revenue stream from the connection is not sufficient to cover the long run marginal cost of the new connection.

For single and three phase Residential and General connections (with fuse capacity of less than 110 kVA) that are found as not eligible for a standard charge, WEL will determine a specific capital contribution that a customer will be required to pay for the connection. The contribution will be based on an economic assessment of the total costs and revenues expected, following the approach outlined above. For the avoidance of doubt, a minimum contribution equivalent to a standard connection charge, as published in the Rate Card, will be applied.

For unique or very large connections, WEL may further consider on a case by case basis whether it might be appropriate to set specific line charges (i.e. customer/asset specific price) which may involve establishing a non-standard price for a particular customer. A non-standard price will include an element that replaces a portion of the upfront capital cost. The purpose of asset specific pricing is to allow the customer to pay for the asset over a longer period to better match their utilisation of the connection to the network and WEL's services. Any amount determined will be economically equivalent to the charges that would have applied using WEL's standardised line charges and associated capital contribution.

8. Relocation of network assets

WEL will accommodate the relocation of existing assets where WEL determines relocation is environmentally sound, prudent, and economically viable for WEL. Relocations will generally not increase WEL's revenues but may reduce costs through increasing the life and quality of the assets. In some instances WEL may view the relocation as asset renewal brought forward and only require a customer to pay WEL's cost for incurring the expenditure earlier than would otherwise have been the case. In summary, after taking into account the circumstances WEL will determine the costs payable to make the relocation economically viable consistent with the principle of the apportionment of costs in proportion to the benefits received between WEL and the customer requiring the relocation.

For relocation of network assets required by a Controlling Authority or a Local Authority WEL will apply the legislative requirements for cost allocation.

WEL may charge, on a case by case basis, the customer for the book value of disposed assets from the relocation works if the existing assets are unable to be economically re-used on the network.

9. Undergrounding of overhead lines

The principle applied in determining the required contributions for undergrounding of overhead lines is similar to the principle applied in assessing capital contributions for relocation of assets. WEL will determine the costs payable to make undergrounding of overhead lines economically viable taking into account the circumstances and by apportioning the costs in proportion to the benefits received between WEL and the customer.

WEL has determined that some of the cost of undergrounding is justified in terms of reducing overall costs. WEL has made \$0.25M available annually to subsidise undergrounding projects. The subsidy will be allocated at WEL's discretion based on multiple criteria (e.g. community driven projects, road safety, condition of the lines and equipment in the area, performance history of the affected assets etc). This fund will generally pay a 50% contribution to the cost of projects. The remaining contribution is to be paid by the customer. This subsidy is allocated until it is exhausted.

10. Land and easements

Unless stated otherwise, the customer is responsible for providing any necessary land or easements at no cost to WEL.

11. Design variations

Our charges are based on our standard network design practice. Where the customer wishes to vary the design, WEL will accommodate this where possible provided the customer pays the difference between the actual cost and the cost of the standard design.

12. Consistency with the Electricity Authority's pricing principles

WEL's capital contribution policy and method is based on its interpretation of the Electricity Authority's pricing principles. This section sets out the Authority's principles (in the box below), reiterates WEL's interpretation and application of them, and outlines the extent to which the policy and the method are consistent with the pricing principles.

Electricity Authority's Distribution Pricing Principles:

- (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);
 - (ii) reflecting the impacts of network use on economic costs;
 - (iii) reflecting differences in network service provided to (or by) consumers; and
 - (iv) 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

WEL's policy to require a capital contribution from a customer when the future revenue stream from the connection is not sufficient to cover the long run marginal cost of the new connection is consistent with the Electricity Authority's distribution pricing principles ('pricing principles'). Such a contribution reflects the economic cost of providing the service. This is consistent with principle (a).

WEL considers its approach to capital contributions to be consistent with pricing principles (a) and (c), as:

- Economic modelling of connection applications results in capital contributions which are subsidy free;
- Capital contributions are based on the size and utilisation of a connection request and therefore reflect the impacts of network use on economic costs;
- Requests for remote connections far from network infrastructure may require significant contributions. This encourages efficient uptake of network alternatives;

- Customers requesting greater reliability of supply (e.g. a separate backup supply) require a greater contribution than customers requesting WEL's standard network design. This enables a price/quality trade-off;

WEL considers that its approach to capital contributions is transparent and that the use of the rate card ensures regard is given to transaction costs. This is consistent with principle (d).

13. How are the costs of the project determined?

For the rate card contributions, WEL has used the average historic cost of customer specific assets, and replacement costs of upstream shared assets.

Where an asset is shared, WEL allocates a proportion of the asset cost based on its assessment of the average customer's capacity requirements. This is consistent with WEL's network design.

For specific connections, WEL estimates the connection specific cost of assets and allocates a proportion of shared asset costs based on the size and demand of the new connection.

14. Who must undertake the work?

For delivery of work WEL will use internal resource where available or network approved contractors.

Customers may use suitably qualified external contractors to undertake some aspects of new connections on a case-by-case basis. Further information on this is available by phoning or emailing WEL's customer services team on (07) 850 3100 or customer@wel.co.nz.

APPENDIX A - Connection Rate Card (effective 1 January 2021)

| Category | Guidelines | Connection charge * |
|---|---|--|
| Residential and General (< 110 kVA) | <p>Standard connections –</p> <p>Following are the guidelines to qualify for a standard connection charge:</p> <ul style="list-style-type: none"> - Connections with fuse capacity of less than 110 kVA that qualify for price categories 1153, 1153C, 1154 and 1154C (Residential customers) 1200 and 1200C (General customers). <p>Note - For further details on the different price categories please refer to our latest price schedule at www.wel.co.nz</p> <ul style="list-style-type: none"> - Connection must be within close proximity to existing 400V network. - Connection must be in the road reserve. <p>Exclusions:</p> <ul style="list-style-type: none"> - Upgrades and relocations. - Connections requiring dedicated spur lines of material length. - Rural utilities e.g. milking shed, irrigation and pumps. - Connections requiring a dedicated transformer. | <p>\$2,400 (excl. GST) for the first connection/lot and \$1,730 (excl. GST) for each subsequent connections/lots in the same application.</p> |
| | <p>Non-standard connections –</p> <ul style="list-style-type: none"> - All connections with fuse capacity of less than 110 kVA that do not qualify as a standard connection. | <p>A minimum of \$2,400 (excl. GST) for the first connection/lot and \$1,730 (excl. GST) for each subsequent connections/lots in the same application.</p> |
| All other connections (>=110 kVA) | <p>Priced on application.</p> | <p>To be advised.</p> |

* For all connections, WEL will determine in its sole discretion whether the standard connection charge or the non-standard connection charge applies.