

HEGR.OP.P80 Capital Contribution Policy



Electricity Distribution Information Disclosure Determination 2012

Disclosure of Capital Contributions (Pursuant to Part 4 of the Commerce Act 1986)

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1. Introduction & Purpose

The purpose of this document is to describe the criteria and methodology (“the Policy”) that Horizon Energy use to determine capital contributions that will be applicable to all new connections made to the network and also to requests for increased demand.

The Policy has been developed in accordance with section 2.4.6 of the Electricity Distribution Information Disclosure Determination 2012 (NZCC 22) (“IDD2012”).

2. Responsibilities

Role	Specifics
Network Manager	To ensure that customers are treated fairly and that the network design quality is maintained.

3. Terms & Definitions

Term	Definition
Horizon Energy	Horizon Energy Distribution Limited
Direct Capital Contribution	Customer contribution to meet the cost of physically connecting their supply to the network
Infrastructure Development Contribution	Customer contribution towards the cost of providing long term capacity in the network
Authorised Contractor	Electrical contractor who has on the basis of qualifications and experience been approved to work on and construct assets for Horizon Energy

4. Application & Scope

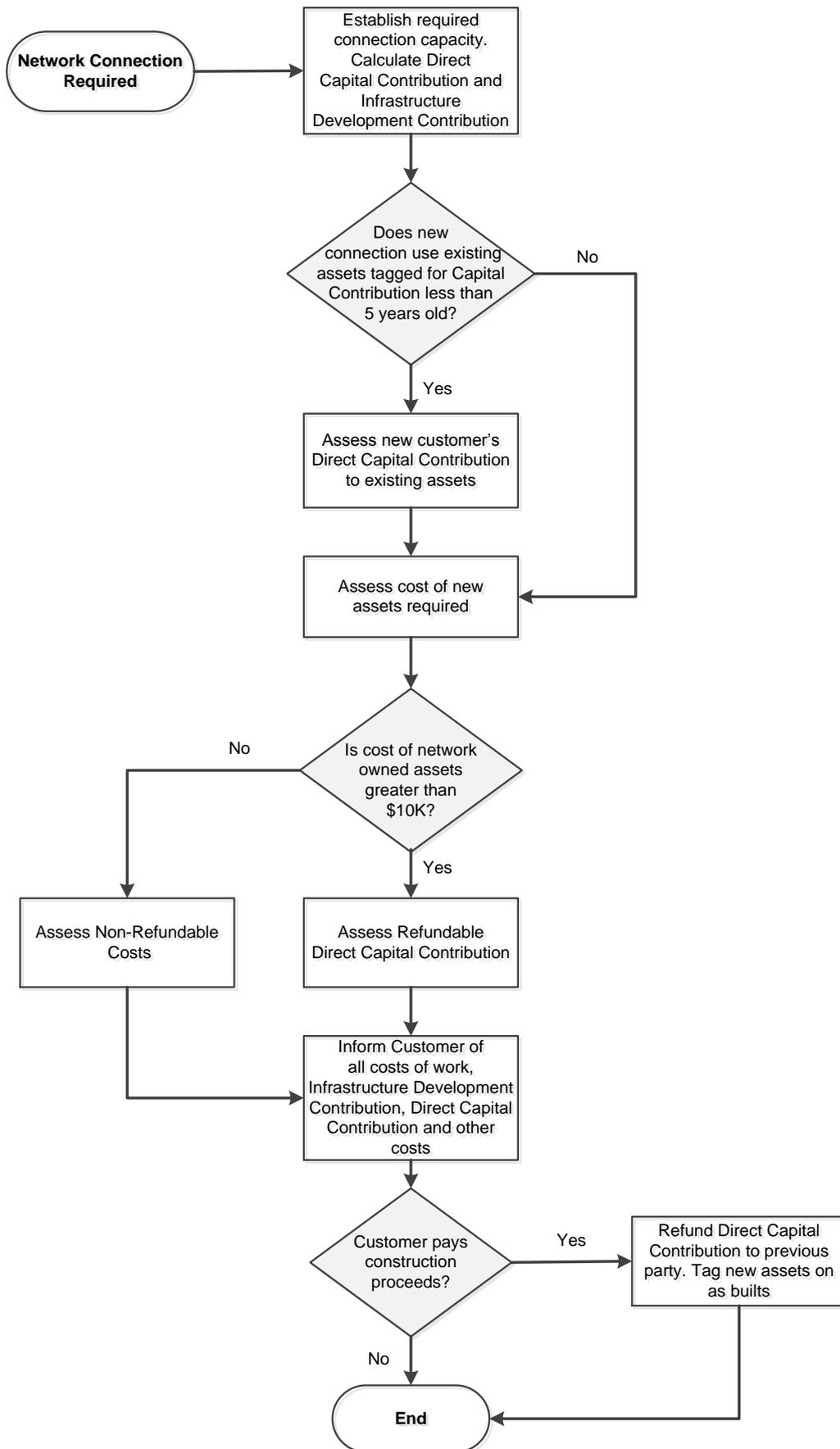
When a new connection is required to be made to the Horizon Energy network there are two types of investment made. The first involves the physical assets directly involved in extending the network to the new customer’s point of connection. Typically for a domestic connection, this will be the assets from the existing network to and including a new connection pillar on the road boundary or an overhead service line to the house. 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 33kV lines and Zone substations that can only be constructed in large increments.

The first case, involving the assets associated with the specific connection, is funded 100% by the customer concerned.

The second case involving the provision of existing and future backbone capacity is funded by cash flow from existing operations, new debt, and from new customers through the Infrastructure Development Contribution.

New assets (service line) on the new customer’s property will be paid for by the customer.

5. Process Flowchart



6. Direct Capital Contribution

6.1 Policy Statement

Horizon Energy charges tariffs 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. Horizon Energy does not consider that existing customers should pay for or subsidise new extensions that will only supply one customer. Therefore new customers are required to meet the direct cost of providing their new connection.

Assets subject to a Direct Capital Contribution will belong to Horizon Energy.

Subject to the practical constraints set out below, if a second or subsequent customer wishes to make use of the assets paid for under this scheme the new customers shall contribute to the cost of those assets. Those subsequent contributions will be refunded to the owner of the land that contains the original installation at the time of the refund. This land owner is not necessarily the current consumer or the original contributor.

For practical purposes there are limitations to the policy:

- No refunds will be payable after five years from commissioning of the assets;
- Refund calculations will be based on the historic cost of the Direct Capital Contribution with no adjustments; and
- Refunds will not be available for Direct Capital Contributions valued at less than \$10,000.

6.2 When a Direct Capital Contribution is required

Following the pricing principles, customers wishing to connect to the network for the first time, or requiring a change in supply capacity, will be required to pay a contribution to off-set Horizon Energy's costs for providing the connection. The amount to be paid (known as a "Direct Customer Contribution") is not a fixed sum (i.e. Horizon Energy does not have a standard schedule of contributions). Rather, it is determined case by case by considering the estimated costs for the work required to provide the required capacity to the property boundary. Cost estimates are based on contractor submitted pricing where available or Horizon Energy will provide an estimate using its knowledge of current prices.

If the new connection requires the use of existing assets that are still subject to a Direct Capital Contribution from another customer then the new customer will be required to pay a fair share of the existing contribution.

Example 1

The situation represented in Figure 1 provides a typical example of how the Direct Capital Contribution works. A Customer X wishes to connect a house on Lot 1 where there is no existing connection and no low voltage supply available. The customer will pay the full cost of installing the transformer, the low voltage cable to the boundary, and the service pillar. The payment is the Direct Capital Contribution and the assets will be owned by Horizon Energy.

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

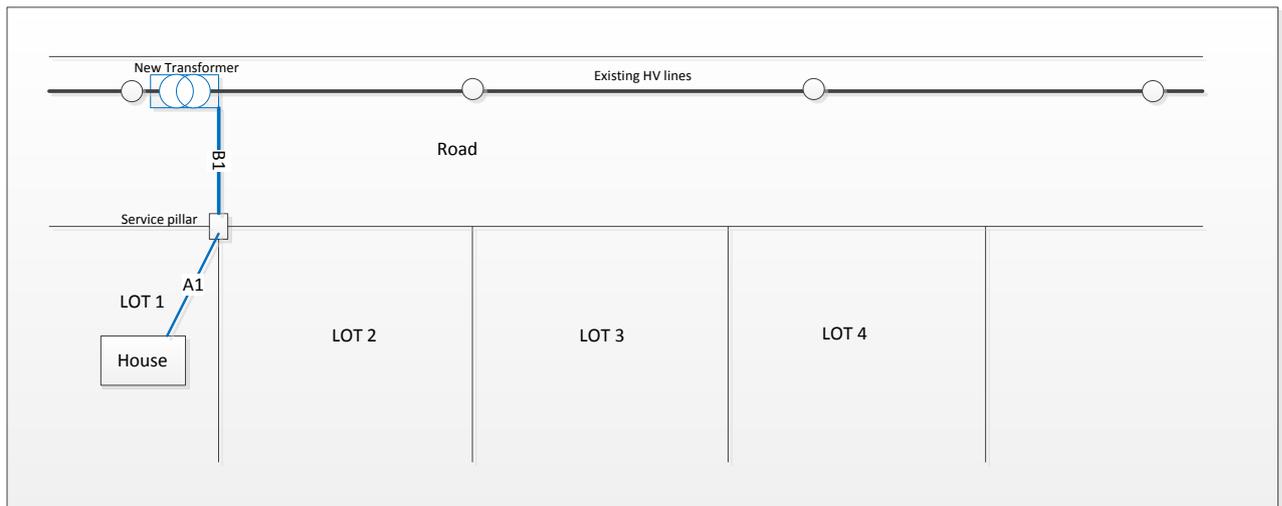


Figure 1 A simple new connection requiring a Network extension

6.3 Refunds

Horizon Energy will:

1. Keep records of Direct Capital Contributions greater than \$10,000, identifying the assets involved for a period of five years from the commissioning of the asset.
2. In the event of further new customers connecting to the asset within the five years Horizon Energy will collect from that new customer an equitable Direct Capital Contribution based on the historic cost of the assets used and the capacity requirements of each customer.
3. Within three months of commissioning the new connection, pass the calculated amount to the owner of the land on which the original connection exists. Although the land owner may not be the person who paid the original Direct Capital Contribution. Horizon Energy's policy reflects that a power supply enhances the value of the land and this would have been reflected in any sale and purchase price.
4. Not refund any Direct Capital Contributions on assets more than five years after commissioning.
5. Not refund any Direct Capital Contributions on assets that are replaced because of failure or network upgrades even if this occurs within five years.

Example 2

Figure two provides an example of where a customer would receive a partial refund on their Direct Capital Contribution. Following on from Example 1, if Customer Y requests a new connection to Lot 4 then the customer will pay the full cost of the low voltage cable from the service pillar at Lot 1 to the boundary of Lot 4 and the new service pillar plus half the Direct Capital Contribution paid by Customer X. The payment is the Direct Capital Contribution and the assets will be owned by Horizon Energy.

Customer X will receive a refund of half their original Direct Capital Contribution. This results in each customer paying their share of the transformer and share of low voltage cables.

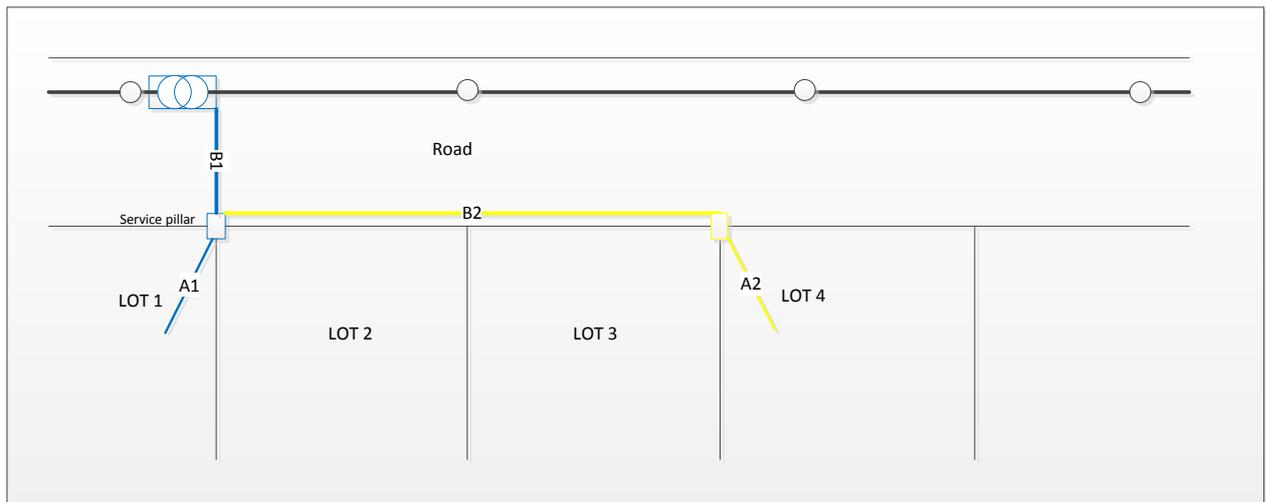


Figure 2 A new connection involving shared use of assets.

6.4 Customer Obligations

If an extension is required to the network to provide supply the new customer will be required to:

- Obtain easements to protect Horizon Energy’s assets as required;
- Remove vegetation to allow the safe construction and operation of the new assets as required by Horizon Energy;
- Satisfy and comply with all statutory requirements relating to new connections; and
- Provide such information as is necessary to enable a detailed design and construction of the connection including a reasonable estimation of the site’s consumption and capacity.

6.5 Use of Independent Contractors

The new customer is entitled to obtain a price from any authorised independent contractor for the construction of the necessary works. The independent contractor’s design will require Horizon Energy’s approval before construction and construction must comply with the approval provided and be completed to Horizon Energy’s standards.

7. Infrastructure Development Contribution

7.1 Policy Statement

Horizon Energy charges tariffs 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.

From time to time Horizon Energy will need to make substantial high level infrastructural investments to meet the growing demands of new and existing customers. These investments 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 a number of years until the next step investment is made.

Horizon Energy uses a combination of debt and retained earnings to invest in assets required to support growth because the efficient use of the network reduces costs to individual customers and economic growth benefits the community as a whole. However following the pricing principles, Horizon Energy does not consider it appropriate for existing customers to provide all the capacity for new customers at no cost.

Therefore Horizon Energy requires each new customer to contribute to the cost of providing sufficient network capacity.

The value of this contribution will be reviewed from time to time to reflect Horizon Energy's growth driven investment requirements.

7.2 When an Infrastructure Development Contribution is required

The Infrastructure Development Contribution will be required to be paid prior to livening a new or upgrading an existing customer's connection point.

For clarity:

1. This Infrastructure Development Contribution will be required to be paid at the time of subdivision when power is reticulated to the boundary of each lot. It will be the responsibility of the developer to meet this cost of connection.
2. For connection points already established as at 1 May 2012, the Infrastructure Development Contribution will be paid at the time when the request to connect is made by the consumer.

7.3 Value

When determining the value of the Infrastructural Development Contribution, Horizon Energy has considered the relevant pricing principles where incremental growth capital is required to distribute adequate quantities of electricity where it is needed around the Eastern Bay of Plenty at an appropriate quality in the long term. The level of investment is set out in Horizon Energy's published Asset Management Plan.

Horizon Energy has identified that the debt funding provided by the marginal revenue from new connections and the amount of investment in growth economically justifiable by Horizon Energy is less than is required to meet the increased demand of new connections.

In accordance with the pricing principles, Horizon Energy requires that new connections and customers requiring capacity increases should contribute to the cost of meeting the growth in capacity required. Horizon Energy has determined that the most appropriate and equitable way of allocating the cost to customers is by relating it to capacity requirements.

The rate determined is \$150 per kVA with a minimum requirement of 10kVA (\$1,500) for a domestic dwelling. Based on historic trends this rate per kVA will provide significantly less than thirty per cent of planned investment in capacity. The rate also reflects Horizon Energy's wish to avoid uneconomic bypass and to support commercial development in the region.

8. Pricing Principles

Section 2.4.6(1)(c) of the IDD2012 requires Horizon Energy to describe the extent to which its Policy is consistent with the Electricity Authority's Distribution Pricing Principles (2010), as set out as follows.

- a) Prices are to signal the economic costs of service provision, by:
 - i. Being subsidy free (equal to or greater than incremental costs, and less than or equal to stand alone costs) except where subsidies arise from compliance with legislation and/or other regulation;
 - ii. Having regard, to the extent practicable, to the level of available service capacity; and
 - iii. Signalling, to the extent practicable, the impact of additional usage on future investment costs.
- b) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness, to the extent practicable.
- c) Provided that prices satisfy (a) above, prices should be responsive to the requirement and circumstances of stakeholders in order to:
 - i. Discourage uneconomic bypass;
 - ii. Allow for negotiation to better reflect the economic value of services and enable stakeholders to make price/quality trade-offs or non-standard arrangements for services; and
 - iii. Where network economics warrant, and to the extent practicable, encourage investment in transmission and distribution alternatives (e.g. distributed generation or demand response) and technology innovation.
- d) Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders.
- e) Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across retailers.

Horizon Energy has considered the relevance of each of these principles in developing the Policy, and considers it is consistent with the pricing principles in the following ways:

- Capital contributions seek to recover incremental capital costs associated with connecting a consumer to the network, including the full cost of dedicated connection assets as well as a contribution to upstream 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. The reapportionment of capital contributions to the original consumer on connection of another consumer to the original assets also ensures that contributions are less than incremental cost and greater than stand-alone cost over time.
- 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 Direct Capital Contribution signals the cost of dedicated connection assets of a certain capacity specification (e.g. in relation to the capacity of dedicated transformers and fuses installed

at the customer’s premises). Whereas the Infrastructure Development Contribution, signals that upstream capacity is finite and seeks a contribution for future investments in network reinforcement.

- While capital contributions do not explicitly recognise consumer demand responsiveness, they do provide a price for connection to the network which consumers may accept at their election.
- The capital contributions process also allows bypass issues and negotiation of price and quality trade-offs to be resolved prior to connection. Higher quality service, which is usually delivered through installation of specialist equipment (i.e. voltage regulators) or network redundancy (multiple circuit connections), is priced into the capital contribution.
- The Policy applies to all technology-types connected to Horizon Energy’s network, subject to our network connection and operations standards. Horizon Energy encourages uptake of distributed generation as part of its distribution pricing methodology by not charging for distribution prices. Avoided transmission payments are also made in certain circumstances.
- We consider that the Policy transparently sets out the criteria and methodology for charging of capital contributions. Changes to this policy are set out in the next section. Capital Contributions are only recovered once for a new connection, so price change issues are not relevant. Similarly, capital contributions are charged to the consumer so are not relevant to retailers.

9. Queries and Complaints

If customers have a query or complaint about our service, they should contact us in the first instance. Horizon Energy’s in-house complaints handling process is confidential and free to use. For more information about our in-house complaints handling process, visit www.horizonenergy.net.nz.

Horizon Energy is a member of the Electricity and Gas Complaints Commissioner Scheme (“EGCC”). The EGCC Scheme is free and independent. If customers are dissatisfied with the outcome of a complaint, or if we have not resolved your complaint within twenty (20) working days, they have the option of contacting the Electricity and Gas Complaints Commissioner on 0800 22 33 40 or www.egcomplaints.co.nz.

10. Amendment Record

Page Number(s)	Context	Date
10	Addition of section 9, Queries and Complaints	21 November 2012
Entire document	Amendments following the Electricity Distribution Information Disclosure Determination 2012	27 February 2013
Entire document	Formatting to ensure document meets ISO 9001 Standards	27 February 2013