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# CL-FN004

## Centralines' Capital Contributions Policy

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# CL-FN004 Centralines' Capital Contributions Policy

## Overview

### Document status

Draft **In Service** Under Review Archived 

### Document purpose

This policy provides a description of any potential capital contribution required by Centralines Limited ('Centralines') when a customer requests:

- a new or modified connection to Centralines' electricity distribution network, or
- the relocation of network assets.

This policy applies to all customer initiated works and customer requested relocation of network assets undertaken by Centralines.

This policy meets the requirements of section 2.4.6 of the Electricity Distribution Information Disclosure Determination 2012.

### What is covered in this policy

This policy covers:

- the capital contributions a customer is required to make for the provision of:
  - network connection points
  - system network extensions
  - network connection point upgrades
  - network connection point downgrades
  - relocation of network assets
  - overhead to underground conversion ('OHUG'), and
  - reticulation of new subdivisions, and
- the general rules that apply to customer initiated works on Centralines' system network.

#### Note

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

### Intended audience

This policy applies to all Centralines' customers.

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## Overview, Continued

<b>Document contributors</b>	<b>Contributors</b>	<b>Name and Position Title</b>	<b>Approval Date</b>
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*Renewal period – 2 years*

### Related references

#### Legislation

- Electricity Act (1992) and Amendments
- Electricity Distribution Information Disclosure Determination 2012

#### Centralines Policy

- CM0002 Centralines' Pricing Policy and Schedules

### Clarification

Clarification of any matter referred to in this document should be directed to:

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### Communication

When customers approach Centralines about a customer initiated works, Centralines will make them aware of this policy and the accompanying procedures.

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## Overview, Continued

### Content

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# 1. Definitions/Abbreviations

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**Augmentation** The enhancement of electrical distribution assets for the distribution or associated with the distribution of electricity. These enhancements are to:

- meet projected system demand, and
- maintain network performance in accordance with the requirements of the Electricity Act (1992).

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**Capital contribution** Capital funding required from the customer in order for Centralines to be able to:

- provide the connection or undertake the requested works, and
- achieve an economic rate of return on the project or projects.

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**Centralines** Centralines Limited trading as Centralines.

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**Consumer** The person who is responsible for the energy consumed at the network connection point.

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**Cost of capital** The opportunity cost of the funds employed as a result of an investment decision. The rate of return that a business could earn if it chose another investment with equivalent risk.

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**Customer** A party (person, persons, trust, corporation or company), or agent thereof, who requests:

- connection to Centralines' electricity network, or
- an upgrade or downgrade.

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**Customer initiated works** Projects that require capital expenditure predominantly associated with:

- establishing new network connection points
- making alterations to the existing network connection points, or
- relocating network assets.

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**Downgrades** Customer requests to reduce the capacity of network connection(s) and associated delivery charges. This reduction is through the replacement of existing electrical distribution assets, with assets of a lesser capacity:

- within the existing system network for the distribution, or
- associated with the distribution of electricity.

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## Definitions/Abbreviations, Continued

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<b>Electrical distribution assets</b>	Electrical distribution assets include lines, cables, transformers or additional switch gear.
<b>Embedded network</b>	An embedded network is an electricity distribution network that is owned by someone other than Centralines.
<b>Extension</b>	The addition of electrical distribution assets for the distribution or associated with providing a network connection point.
<b>Network connection point</b>	The point on the system network where the consumer is connected. In most situations this is also the point where the responsibility for the equipment that conveys electricity transfers from Centralines to the consumer.
<b>Network reticulation</b>	The provision of electrical distribution assets for the distribution or associated with the distribution of electricity within the existing system network.
<b>Network service zone</b>	The area defined for the purpose of service levels and pricing in respect of urban and rural customers as detailed on Centralines' website <a href="http://www.centralines.co.nz">www.centralines.co.nz</a> .
<b>OHUG</b>	Overhead to Underground (OHUG) conversion – is the relocation and replacement of overhead distribution assets to underground and ground mounted assets. This conversion is for the distribution or associated with the distribution of electricity within the existing system network.
<b>Project costs</b>	All costs relating to the customer initiated works.
<b>Substation</b>	Transformer and associated fittings including switchgear, earthing, protection, structure and foundations, and all connections made to them.
<b>System network</b>	The existing electrical distribution assets owned or operated by Centralines Limited for the distribution or associated with the distribution of electricity to end-consumers.
<b>Upgrades</b>	Works undertaken to increase the capacity of a network connection point.

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## 2. Background

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### 2.1 Process

The first step in determining a customer's contribution to reticulate power and connection to a site is deciding a 'fit for purpose' solution. This takes into account:

- customer's load/demand requirements
- specific customer requirements (dedicated solution)
- non-standard customer requirements (e.g. lower or higher security and reliability, investment charges, termination payment schedule associated with the customer initiated works), and
- any network augmentation required to meet the customer's load and projected system load.

Customers will be provided with a quote, detailing:

- scope of works to be undertaken
  - easements, as applicable
  - capital contribution required to be paid by the customer, and
  - price category or delivery charges that will apply for any new or upgraded/downgraded connection.
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### 3. Capital Contribution

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#### 3.1 Level of capital contribution for a new investment

Centralines will own the electrical distribution assets installed in association with the customer initiated works. The customer will be requested to make a capital contribution. The level of capital contribution required is determined based on the project meeting the required rate of return for the investment in line with Centralines' 'Cost of Capital'.

Projected future revenue is based on the applicable price category and price options from any new customer connection. For a project investment to be economic, future revenue must cover:

- the cost to operate and maintain any proposed new extension (including indirect administration costs), and
- an appropriate share of the cost to operate and maintain electrical distribution assets upstream from the network connection point. This approach ensures existing customers are no worse off following the connection of a new user. As the expected network revenue from the new customer (in the form of additional charges and/or capital contribution) will cover the incremental cost of supply.

The capital contribution required will be calculated based on the net present value (NPV) of the project. This includes all associated costs and revenue streams over an appropriate period. A negative NPV indicates the investment would be uneconomic for Centralines, therefore a capital contribution payment is required from the customer.

Centralines' price schedule containing delivery prices for each price category and price option can be found on Centralines' website [www.centralines.co.nz](http://www.centralines.co.nz).

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#### 3.2 Formula for calculating contribution

The following general approach is used to determine the level of contribution required for a project or projects:

+ Investment in the customer initiated project or projects  
+ Present value (PV) of maintenance and operating expenditure  
**= Total Costs**

– PV of future revenue streams projected from customer (post tax and costs)  
– Equipment salvage value (if any)  
**= Customer Contribution**

Should another customer connect to the network at a point established previously as a Customer Connection Project, the first initiated customer will not be entitled to any refund.

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## Capital Contribution, Continued

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### 3.3 Project considerations

The capital contribution required will be determined based on the net present value (NPV) of the project. This includes all associated costs and revenue streams over an appropriate period according to the formula in *point 3.2*. A negative NPV indicates the investment would be uneconomic for Centralines. Therefore, a capital contribution payment is required from the customer. The factors listed below must also be considered when determining the customer initiated works NPV and capital contribution required.

- The value of any deferral of planned and budgeted renewal expenditure from the early replacement of existing assets due to customer initiated work will be determined and taken into consideration.
- The timeframe and rate of future connections projected as part of the project taking into account:
  - market conditions
  - build timeframes, and
  - urban/rural subdivision.

Timeframes used are based on actual experience over an extended period. As a guide, connection uptake for subdivisions will generally be phased over 10 years.

- Centralines will deduct associated network general costs from the total cost of the customer initiated works, where a significant upgrade of Centralines' network is required to accommodate additional load. The purpose of this is to determine the capital contribution required. Network general costs are the proportion of costs associated with providing the increased capacity that existing and future upstream customers will benefit from.
- A proportional share of existing upstream assets, based on the maximum anytime or peak loading on network assets, will be included in the total customer initiated works value. This value will be used for determining the capital contribution required and any investment charges.

Centralines incorporates a minimum capital contribution in its incremental profitability assessment. This discourages 'inefficient' investment by exposing new connections to a portion of the financial cost of the works. It also incentivises new connections to size their connection appropriately in order to minimise the cost of augmentation.

The minimum capital contribution will take into account the non-recoverable incremental project costs. Generally, non-recoverable incremental project costs are equivalent to the value of assets physically or economically not able to be re-deployed in the event the new connection no longer requires them.

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## Capital Contribution, Continued

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- 3.4 Augmentation of system** Where Centralines determines augmentation is advantageous to Centralines, Centralines will:
- identify the level of benefits, and
  - determine an appropriate cost split between Centralines and the customer.
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- 3.5 Special enhancements** Where a customer's network connection point requires special enhancements, the cost of these enhancements will be charged to the customer.
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- 3.6 Downgrades** Where a downgrade is requested, the cost of the downgrade is payable in full by the customer.
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- 3.7 Fuse Requirements** If upon livening customer initiated works it is identified the actual customer demand requires a variation to fusing, Centralines may make an adjustment to the required contribution. The customer must pay any additional contribution associated with this.
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## 4. Roothing Authorities

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- 4.1 Obligations** Centralines ensures it meets all of its obligations in relation to undertaking network asset relocations at the request of Roothing Authorities including any associated cost sharing. These obligations are described in the Electricity Act 1992 and subsequent amendments.
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## 5. Relocation of Network Assets

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- 5.1 Obligations** Centralines will accommodate the relocation of existing assets where it determines relocation is environmentally sound, prudent and economically viable for Centralines.

Centralines will determine the capital contribution payable to make the relocation:

- economically viable, and
  - consistent with the principle of the apportionment of costs in proportion to the benefits received between Centralines and the customer requiring the relocation.
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## 6. Using Independent Contractors

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### 6.1 Contractors

Centralines undertakes all customer initiated works and does not permit the use of independent contractors. This ensures:

- customer initiated works are carried out in a cost effective manner that maintains the integrity of Centralines' asset standards, and
- asset management strategies which are designed to deliver whole of life value from Centralines' assets.

Further information on Centralines' asset management strategies can be found in Centralines' Asset Management Plan available on Centralines' website [www.centralines.co.nz](http://www.centralines.co.nz).

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## 7. Consistency with Pricing Principles

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### 7.1 Pricing principles

Centralines' approach to determining capital contributions outlined in this policy is consistent with Centralines' Pricing Objectives and Principles. These are contained in Centralines' Pricing Methodology Disclosure available on Centralines' website [www.centralines.co.nz](http://www.centralines.co.nz).

They are consistent with Electricity Authority's and Commerce Commission's pricing principles and are subject to oversight by these industry regulators.

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## Appendix A – Summary of Document Changes

<b>Date</b>	<b>Version No.</b>	<b>Changes to Document</b>	<b>Creator</b>	<b>Authoriser</b>	<b>Approver</b>
14/04/2020	1.0	New policy.	Revenue Analyst	Unison's GM Commercial	Group Chief Executive