



# Capital Contributions Policy

Effective from 1 June 2022

## 1. Introduction

Marlborough Lines Limited (MLL) recovers the cost of owning and operating our electricity distribution network (network) through ongoing line delivery prices paid by existing consumers connected to the network<sup>1</sup>. When a New Connection is established on MLL's network, investment in new and/or upgraded assets is typically required to provide an electricity supply to that connection.

The New Connection has an incremental impact on the shared Upstream Network Assets; the New Connection utilises additional units of network capacity. At a point in time, all available capacity is utilised by the n<sup>th</sup> connection, and significant network upgrades may be required to provide additional capacity for future New Connections.

MLL believes that existing consumers should not bear costs of New Connections connecting to its network, and as such, looks to recover costs upfront from New Connections. This includes payment of a Development Contribution, which recognises that existing consumers have funded network capacity which is being utilised by the connecting consumer.

## 2. Purpose and scope

This policy has been prepared to provide information to prospective customers (or their agents) about Customer Capital Contributions required as a result of New Connections to MLL's network.

MLL may require Customer Capital Contributions through funding of new MLL (and potentially Customer) Electrical Equipment and through payment of a Development Contribution. Customer Capital Contributions will apply in circumstances, such as the following:

- For New Connections to MLL's network that result in a new Installation Control Point (ICP);
- Existing connections that are modified, i.e., an upgrade to the connection's required capacity;
- Land subdivisions requiring electrical reticulation to each Lot; and/or
- When relocation of MLL's assets is required by a customer, including moving existing overhead assets to underground.

This policy:

1. Sets out requirements for Customer Capital Contributions towards New Connections, including a Development Contribution.
2. Is limited to Customer Capital Contributions and should be read in conjunction with MLL's network connections application process (refer to MLL's website), and with MLL's Network Connections Standard and any other relevant MLL standards.
3. Meets the requirements of the Commerce Commission's Electricity Distribution Information Disclosure Determination 2012 and of the Electricity Authority's pricing principles.
4. Comes into effect on 1 June 2022.

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<sup>1</sup> Typically via their electricity retailer.

### 3. DEFINITIONS

**Application Fee:** A fee to cover administrative costs incurred by MLL with processing a customer's New Connection application.

**Customer Capital Contribution:** An amount payable by a customer for the works to supply the New Connection. Includes any applicable Development Contribution. Application and Design Fees not included in the Customer Capital Contribution.

**Customer Electrical Equipment:** electrical assets owned by the customer (generally the private property owner), beyond the point of supply from MLL's network.

**Customer Internal Works:** All works within private property to supply the New Connection. These assets do not make up part of MLL's network (MLL Electrical Equipment) and are owned by the property owner (unless high voltage, or continuing on to supply an additional connection), and may be constructed by a third-party contractor (providing the work is constructed to MLL's network standards).

**Customer Works Cost:** The amount of the quoted works to construct the supply for the New Connection requested. This may include the Internal Customer Works cost if this is part of the scope of works requested. Customer Works cost excludes the Development Contribution.

**Design Fee:** A fee payable by the customer for the undertaking of the New Connection application technical review, design of network extension/upgrade and provision of a cost estimate and customer works contract.

**Development Contribution:** A contribution payable by the customer that reflects a share of the costs of the Upstream Network Assets and the capacity that is generally available for the connecting customer.

**"MLL", "Our", "Us" or "We":** Marlborough Lines Limited.

**MLL Contribution:** An amount determined by MLL that MLL will pay towards the Customer Works Cost, i.e., a reduction to the Customer Capital Contribution.

**MLL Electrical Equipment:** electrical assets owned and operated by MLL and that form part of MLL's electricity distribution network. The point of supply generally is the demarcation point between MLL's Electrical Equipment and Customer Electrical Equipment. New Connections may result in new MLL Electrical Equipment.

**Network Approved Contractors:** A contractor approved to construct network extensions that connect to MLL's network, and/or work on MLL's network. Network Approved Contractors will have an agreement with MLL setting out MLL's requirements.

**New Connection:** a new (or upgrade to an existing) connection (installation control point (ICP)) connecting to MLL's electricity distribution network. Includes the Customer and MLL's Electrical Equipment, where applicable.

**Point of Supply.** As defined in the Electricity Act 1992. Generally will be the point at which electrical assets cross into private property (but subject to various matters).

**Upstream Network Assets:** Existing network assets upstream of the customer's connection point. Upstream Network Assets are typically shared (used) by other consumers connected to MLL's network.

**"You" or "Your":** The applicant, or customer requiring the New Connection (including any agent applying on a customer's behalf).

### 4. Principles

The following principles underpin MLL's capital contributions policy and approach:

1. A simplistic approach, readily understandable by all stakeholders, and easy to implement and administer.
2. An approach that can be demonstrably fair to our consumers: existing consumers should not disbenefit from a new consumer connecting, i.e., avoid cross- subsidisation from existing consumers to new consumers.
3. Manage any increases in MLL's line delivery prices to consumers.
4. Supports economic growth in Marlborough in a sustainable way.
5. Does not contravene MLL's vision and objectives.
6. Follows the Electricity Authority's Pricing Principles.

## **5. Connections process**

Applications for New Connections can be made via MLL's website. Further information on the new connections process is included on the website. Applicants should also read the information available on MLL's website, including the available standards.

MLL charges a fee for applications, and where design and a cost estimate is required to undertake the construction of MLL Electrical Equipment, an additional fee may apply. Charges for livening a New Connection by MLL electrical inspectors may also be applicable. These all may be in addition to the Customer Capital Contribution amount.

MLL is under no obligation to approve a New Connection application. Approval will be subject to a range of factors, including proximity to MLL's electricity distribution network and available network capacity, for example.

MLL will generally not reserve capacity for an applicant, i.e., connection approvals occur on a "first in first served" basis.

## **6. Determination of Customer Capital Contribution**

### **6.1 General**

The final amount of the Customer Capital Contribution will be determined by MLL and will comprise the Customer Works Cost as well as a Development Contribution. MLL may, at its discretion, determine any MLL Contribution to a New Connection or asset relocation work initiated by a customer.

MLL will generally fund the cost of a distribution transformer (the equipment cost only) as this is an asset that MLL can reuse should it be replaced. When a new connection requires replacement of an existing distribution transformer due to insufficient capacity, MLL will generally also cover the costs of removing the existing transformer and installing the new transformer if the new connection is not the only existing ICP connected, and where the existing distribution transformer is >50kVA.

MLL may only add assets to its Regulatory Asset Base (RAB) that MLL has funded. MLL can only make a return on assets it has invested in, therefore, if MLL has not funded the assets, MLL does not make a return on them until such time as MLL renews those assets (typically >50-year useful lives).

## 6.2 Calculation of Development Contribution

The Development Contribution amount payable is based on rates that have been determined by considering the total value of MLL’s RAB, and the network capacity available. The Development Contribution recognises that MLL’s network assets have long useful lives, that network upgrades take significant time to plan, consent and construct and that surplus capacity is constructed at long run intervals rather than incrementally. Investing in surplus capacity (at least initially) allows for future New Connections without a significant network upgrade being required each time a New Connection is established.

The capacity value is based on the fused capacity for the installation, typically 15kVA for a standard residential connection. A New Connection cannot be fused higher than what the Development Contribution has been paid for. If a fuse upgrade is required, then a Development Contribution would be required for the additional fused capacity required.

For residential subdivisions, an assumed capacity of 15kVA per lot will be applied and will be payable by the developer (i.e., not by the future purchaser of a lot who then develops the site and connects to the network – other connection charges will apply, though).

Unmetered loads such as telecommunications cabinets will be charged on the actual kVA required (unmetered loads must be <3kVA generally). All other connections will require a minimum of 15kVA capacity.

As the amount of any Development Contribution varies by location, “standard rates” are not prescribed in this policy. However, the following “standard rates” that cover most New Connections are included for reference. For Commercial and Industrial (>150kVA) connections, MLL may apply different development contribution rates, subject to an economic analysis which considers future line delivery price revenue.

**Table 1: Standard Development Contribution amounts.**

Connection type	Location/Area development contributions			
	Blenheim	Picton	Renwick	Other
Residential connection, 15kVA	3,121	4,360	3,768	Varies
\$/kVA rate	208	291	251	Varies

Note – the above values are a guide and values within locations/areas outlined above may vary.

## 6.3 Asset relocations

Where a customer requires existing MLL Electrical Equipment to be relocated, that will generally be for the customer’s own needs/benefits. In these situations, MLL will follow the requirements of sections 33 and 35 of the Electricity Act 1992.

## 7. Construction and Ownership of New Connections

### Construction and ownership of electrical equipment.

Many New Connections will require construction of new electrical equipment (MLL Electrical Equipment and/or Customer Electrical Equipment). Typically, the customer requiring those assets will fund them, with the MLL Electrical Equipment being vested (gifted) to MLL to own and maintain (and

renew at end of life). MLL will only own new assets to the Point of Supply, which is typically the pillar or fuse at or near a private property's boundary – the MLL Electrical Equipment. Assets beyond the point of supply within private property are generally Customer Electrical Equipment.

Prior to construction, the design and proposed New Connection must be submitted to MLL for approval. Prior to new MLL Electrical Equipment being vested to MLL, and connected to MLL's existing network, evidence must be provided to ensure that those assets meet MLL's relevant network standards<sup>2</sup>. The same applies for New Connections that solely involve Customer Electrical Equipment connecting to existing MLL Electrical Equipment.

The customer requiring the New Connection will be responsible for arranging, paying for and maintaining all parts of their electrical installation – generally those assets contained within private property and for the exclusive use of the connecting customer, MLL will not own and be responsible for these assets.

#### **Electrical easements in gross to MLL.**

If MLL's electrical equipment (network assets, for example, poles, their conductors, underground cables and distribution transformers) are to be installed on land you own or is land owned by a third party, a legal easement in gross to MLL<sup>3</sup> must be created and registered on the property title.

Low voltage services or distribution mains on your property supplying only your connection are generally owned by the property owner (Customer Electrical Equipment), and generally do not require an easement in gross to MLL. Please be aware that MLL is not responsible for inspecting, maintaining, repairing or replacing Customer Electrical Equipment.

#### **Network Approved Contractors.**

Works can be constructed by MLL, or any MLL Network Approved Contractor<sup>4</sup>. Any works constructed must meet all relevant industry standards, as well as MLL's network design and construction standards. A copy of these standards can be made available upon request or can be found on MLL's website.

Prior to constructing any works connecting to MLL's network, pre-approval of the design must be submitted to MLL for approval. Other conditions may be specified as part of the approval, and no-livening of any New Connection will take place unless these conditions are satisfied by MLL.

## **8. Other information and requirements**

#### **Non-standard connection contracts.**

For most New Connections, standard terms will apply. For those New Connections that are in remote areas, require significant dedicated assets and/or capacity, or where MLL considers that an alternative approach is appropriate, non-standard terms may be applied by MLL.

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<sup>2</sup> MLL's Network Connections Standard and As-built Standard, for example.

<sup>3</sup> Easement's in gross to MLL will generally be on MLL's standard terms and conditions.

<sup>4</sup> MLL can provide a list of contractors approved to undertake such works, upon request.

### **Declining New Connection applications.**

MLL reserves the right to decline an application for a New Connection if MLL, at its discretion, determines that there is insufficient benefit to MLL and its existing consumers in permitting the New Connection.

### **Miscellaneous.**

- No payment from MLL to a consumer who downgrades capacity (and reduces the connection's utilised capacity).
- MLL will not refund Development Contributions paid if the capacity paid for is subsequently not required by the customer.
- Capacity paid for by a customer cannot be transferred or traded to another site or connection (or customer).
- For subdivisions (or developments where more than one new connection is requested), electrical diversity is not applied in determining the Development Contribution.
- New Connection applications which involve building a network extension that crosses a railway line will be required to pay a rail crossing levy charge upfront and prior to the livening of the connection. This levy is currently set at ten times the expected annual rail crossing charge from NZ Rail (or its successors) at the time of application.
- All amounts exclude GST.
- For Distributed Generation connections, please refer to the distributed generation information on our website.

## **9. Pricing Principles**

The current Electricity Authority pricing principles are set out below.

- 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
  - (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) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.
- D) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:
  - (i) reflect the economic value of services
  - (ii) enable price/quality trade-offs
- E) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

MLL believes that this policy is consistent with the above principles.

*Note – this version updated March 2023 to include Point of Supply definition and add further information on development contributions for >150kVA connections.*