

PowerWater

2009 NETWORKS REGULATORY RESET

CAPITAL CONTRIBUTIONS POLICY

1 JULY 2009 TO 30 JUNE 2014

Power and Water Corporation
GPO Box 1921 Darwin Northern Territory 0801
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1. Contents

1.	Contents	2
2.	Scope	4
3.	Introduction	4
4.	Relationship to Access Agreements	4
5.	Further Information	4
6.	Definitions	4
7.	General Principles	6
7.1.	Types of Capital Contributions	6
7.2.	Parties to a Capital Contribution	6
7.3.	Network User's Choices	6
7.4.	Types of Works	6
7.5.	Contestability of Works	7
7.6.	Ownership of Assets	7
7.7.	Sizing of Assets	8
7.8.	Standards of Works	8
7.9.	Calculating the Capital Contribution	8
7.10.	Disputes over contribution calculation	10
7.11.	Timing of Payments	10
7.12.	Prudential Requirements	11
7.13.	Early or late payment	11
8.	Information required from a Network User	11
8.1.	Nature of the Information to be Provided	11
8.2.	Provision of Accurate Information	12

9.	Contracting for Capital Contributions	12
10.	Regulatory Approval of this Policy	12
11.	Compliance with this Policy	12
	Appendix A – Capital Contributions Return Form	13

2. Scope

This Capital Contributions Policy applies to any new or upgraded Network Access Service sought by Network Users.

3. Introduction

This Policy sets out the principles that the Power Networks Business Unit of Power and Water Corporation will apply in levying a Capital Contribution on a Network User for any new or upgraded Network Access Service.

This Policy is developed in accordance with the *Electricity Networks (Third Party Access) Act* (Act) and the Electricity Networks (Third Party Access) Code (Code) contained with the Act and is intended to be referred to in all Access Agreements entered into between Power Networks and a Network User.

The Code only applies in Regulated Areas. While this Policy applies in both Regulated Areas and Unregulated Areas and extends definitions of terms used in the Code to Unregulated Areas, nothing in this Policy requires Power Networks to comply with the requirements of the Code in Unregulated Areas.

This Policy has also been developed with regard for the *Planning Act* as it relates to developer contributions.

4. Relationship to Access Agreements

This Policy should be referenced in all future Access Agreements entered into between Power Networks and a Network User in order to set out the standard terms and conditions for Power Networks providing new, or upgrading existing, Network Access Services to Network Users from its Connection Assets and Network System Assets.

The Policy will also apply to Network Users that do not have an Access Agreement with Power Networks.

5. Further Information

For further information about this Policy, please contact:

General Manager Power Networks
Power and Water Corporation
PO Box 37471
Winnellie NT 0821
Ph: (08) 8924 5400 Fax: (08) 8924 5406

6. Definitions

Access Agreement has the meaning set out in the Code.

Access Application has the meaning set out in the Code.

Access Offer has the meaning set out in the Code.

Accredited Service Provider is a service provider who has been accredited by Power Networks in accordance with its relevant policies to design, construct, install and commission Connection Assets and Network System Assets.

Act is the *Electricity Networks (Third Party Access) Act*.

Capital Contribution is a non-refundable financial contribution made – or the equivalent in the form of contributed assets – by a Network User to Power Networks towards the cost of designing, constructing, installing and commissioning Connection Assets or Network System Assets to provide new or upgraded Network Access Services to a Network User.

Code means the Electricity Networks (Third Party Access) Code contained in the Schedule to the Act.

Connection Equipment or Connection Assets has the meaning set out in the Code.

Connection Point has the meaning set out in the Code.

Connection Service has the meaning set out in the Code.

Contribution Plan has the meaning set out in the *Planning Act*.

Electricity Network has the meaning set out in the Code.

Network Access Services has the meaning set out in the Code.

Network System Assets has the meaning set out in the Code.

Network User has the meaning set out in the Code and includes, for the purposes of this policy, any of:

- a) Power and Water (Retail);
- b) a licensed electricity retailer that has, or is seeking to establish, an Access Agreement with Power Networks;
- c) an existing or potential end load user that seeks a new or upgraded Connection Service at a Connection Point;
- d) an existing or potential developer that seeks a new or upgraded Connection Service at a Connection Point; and
- e) an existing or potential generator user that seeks a new or upgraded Connection Service at a Connection Point.

For the purposes of this policy, a Network User may be in either a Regulated Area or an Unregulated Area.

Planning Act is the Northern Territory *Planning Act*.

Power Networks has the same meaning given to the term “PAWA Networks” in the Code.

Power and Water (Retail) has the same meaning given to the term “PAWA Retail” in the Code.

Regulated Area means an area within the Northern Territory that is subject to regulation under the Code.

Regulator has the meaning set out in the Code.

Technical Code means the Network Connection Technical Code developed by Power Networks in accordance with the requirements of section 9(2) of the Code.

Unregulated Area means an area within the Northern Territory that is not a Regulated Area but where the electricity assets are owned and operated by Power and Water.

7. General Principles

This section of the policy sets out general principles that apply to determining and levying Capital Contributions.

7.1. Types of Capital Contributions

A Capital Contribution can be made by a Network User in the form of:

- a) a financial payment to Power Networks, where Power Networks undertakes works required to provide new or upgraded Network Access Services to a Network User; or
- b) the transfer of ownership of Connection Assets or Network System Assets to Power Networks from a Network User that has procured and funded the installation or construction of the assets by an Accredited Service Provider; or
- c) a combination of a) and b) above.

7.2. Parties to a Capital Contribution

A capital contribution may apply between Power Networks and any of the following parties:

- Network Users, which for the avoidance of doubt includes:
 - end-use customers (which may be a residential, commercial or industrial load);
 - developers of residential and commercial subdivisions; and
 - Government Departments, Local Councils or similar authorities acting on behalf of specific end-users or the community more broadly.

7.3. Network User’s Choices

A Network User may choose whether it will make a Capital Contribution to Power Networks in the form of contributed assets or a financial payment.

7.4. Types of Works

Power Networks may require a Network User to make a Capital Contribution where:

- the provision of Network Access Services to the user requires new or upgraded Connection Assets or Network System Assets (involving asset augmentation or extension of connection equipment); and
- the cost of these assets (including design, construction, installation and commissioning) cannot be fully recovered by Power Networks through future tariff revenue over a period of time to be determined by Power Networks in accordance with this Policy.

Power Networks will, in the event that the above conditions are deemed to apply, levy such a Capital Contribution in accordance with:

- a) clause 80(2) of the Code, which states that:

An access applicant or network user may be required to make a capital contribution towards the extension of connection equipment or network system assets only if the network provider can demonstrate that the extension is not commercially viable without that capital contribution;

- b) Part 6 of the *Planning Act*, under which Power Networks may prepare a Contribution Plan that requires the owner of land to make a Capital Contribution for the provision of works. In accordance with section 69(4) of the *Planning Act*, a Contribution Plan must include:
- a description of the required infrastructure;
 - a statement of the order in which the infrastructure works must occur;
 - an estimate of, and method for calculating, the capital cost of the infrastructure works; and
 - a formula for calculating the Capital Contribution.

7.5. Contestability of Works

Power Networks or any Accredited Service Provider may design, construct, install or commission Connection Assets or Network System Assets to service a new or upgraded connection point provided that they do so in compliance with the Technical Code.

Power Networks encourages Network Users to contact it to obtain a list of Accredited Service Providers, or to obtain information about becoming an Accredited Service Provider.

7.6. Ownership of Assets

Power Networks will own all of the Connection Assets and Network Service Assets that have been funded by Capital Contributions, regardless of whether the Capital Contribution is made by the Network User as a financial payment, a contributed asset or both.

7.7. Sizing of Assets

Power Networks will determine the level of the payment or nature of the works required from a Network User through a Capital Contribution based on the closest available standard size which is at or greater than the optimally sized asset that is needed to meet the Network User's requirements for Network Access Services. That is, the Capital Contribution will be based on:

- a) the optimally sized asset required by the Network User if it corresponds to a standard size asset that can be installed and commissioned; or, where it is not the case
- b) the closest higher standard size to the optimally sized asset required to service the Network User.

A Network User will transfer ownership of any contributed assets to Power Networks at no cost to Power Networks except if it has agreed in writing that the Network User will build assets with greater capacity than it needs for its own purposes in order to service the future needs of Power Networks or its customers. Power Networks will fund the incremental costs of any greater capacity on a basis agreed in writing with the Network User.

7.8. Standards of Works

All works to Connection Assets and Network System Assets that are required to provide new or improved Network Access Services to a Network User must be undertaken in accordance with the Technical Code, relevant network planning criteria and other requirements reasonably required by Power Networks.

Power Networks may grant derogations from the above requirements if it considers it reasonable to do so.

7.9. Calculating the Capital Contribution

In accordance with the requirements of clause 80(4) of the Code, Power Networks will limit the amount of any Capital Contribution to that required to make a new or upgraded connection commercially viable. The general test of commercial viability will be whether the cost of the Connection Assets can be recovered through regulated tariffs that apply to existing network users or to the network user in question over a period of time and based on financial parameters determined by Power Networks. These parameters are set out in this Policy and have been approved by the Northern Territory Utilities Commission.

The maximum amount of a Capital Contribution will be the shortfall in the viability of the required works, based on the present value of the costs associated with the connection less the present value of the projected future tariff revenues earned from the connection. That is:

$$\text{Capital Contribution} = \text{PV (actual and attributed costs of connection)} - \text{PV (customer tariff x volume)}$$

Where:

- a) the "actual and attributed costs of connection" is calculated on an incremental actual cost basis, based on:
- the full capital cost of the (optimal) Connection Assets and the Network System Assets dedicated to an individual customer; and
 - an apportionment of the incremental costs of any new shared (optimal) Connection Assets and Network System Assets that are designated to that particular connection and would not have been incurred within the ordinary planning horizon but for that connection having occurred.

where the optimisation is determined subject to clause 7.7 above.

- b) the "customer tariff" is that which is actually charged to the Network User, which may be different to the general network tariff schedule in circumstances where a discount for that particular customer has been negotiated;
- c) the "volume" is determined based on the projected incremental future electricity demand by the Network User attributable to the new works, as estimated by Power Networks and assumed constant over the relevant investment timeframe. In instances where Power Networks do not consider that the volumes provided by the customer are reasonable, or indicative of that customer's likely usage, Power Networks may estimate these values at its discretion;
- d) capital costs includes "restoration costs" which are the present value of those costs associated with the future removal of connection assets consequent to a customer no longer requiring the use of those assets. Restoration costs will not be applied by Power Networks to the calculation of the contribution for connections in regulated areas unless the probability of assets being "sunk" at the expiry of a connection is determined by Power Networks to be a high risk;
- e) the "PV", present value, is calculated using:
- a weighted average cost of capital calculated in a manner consistent with the methodology applied by the Regulator in setting the weighted average price cap for the third regulatory period, updated for changes in parameter values since the time of the regulator's third regulatory period decision and the provisions of clause 80(6) of the Code; and
 - an investment timeframe, relevant to the type of customer, as follows:
 - i. 30 years for residential customers; and
 - ii. 15 years for all other customers.
 - Power and Water may choose to apply a shorter PV assessment period if it reasonably considers that the project is characterised by:
 - i. a short asset life or risk of asset stranding, meaning that the assets may not be used by the customer, or future customers at that site, for the standard investment timeframes of 30 years for residential customers and 15 years for all other customers; or

- ii. a high risk of default in relation to an otherwise economic connection, which might mean that Power and Water will not recover the assumed revenue from that connection over the full term of the standard investment timeframes.

A Capital Contribution will only be levied if the outcome of the application of the above formula is a positive value (i.e. where a revenue shortfall is expected). In such a case, the value of the contribution charge will not exceed this amount.

7.10. Disputes over contribution calculation

For the purposes of calculating a capital contribution under section 7.9, for works undertaken by Power Networks, the capital costs will be valued at their actual cost to Power Networks, subject to sizing variations applying under section 7.7.

Power and Water encourages Network Users to obtain comparative price quotes for the construction, installation and maintenance of connection assets. Power and Water will only recognise a Network User's complaint regarding the cost of works where it has no alternative provider to Power Networks. Where the works form part of an Access Application or Access Agreement as per clause 31 of the Code, unresolved disputes over the amount of the contribution will be dealt with under the resolution procedures contained in Chapter 4 of the Code. Similarly, it is Power and Water's intention to apply the procedures of Chapter 4 to disputes that arise where there is no Access Application or Access Agreement between the parties.

7.11. Timing of Payments

For works undertaken by Power Networks, the financial payment of the Capital Contribution will be recovered through a single up-front payment from the Network User to Power Networks before it commences the related works, unless otherwise negotiated between the Network User and Power Networks.

In the case of works that are physically contributed to Power Networks, and that are installed with excess capacity at Power and Water's request, payment for the cost of the excess capacity will take place at a time agreed to by Power and Water and the party undertaking the works.

Power Networks may agree to a Network User progressively paying its Capital Contribution over time, including after the related works have been commenced, having regard for matters including:

- a) the amount of the Capital Contribution; and
- b) the expected timing for completion of the required works.

In the case of Capital Contributions made through contributed assets, ownership will transfer to Power Networks once the new assets have been completed and commissioned and all of the necessary inspections and testings have been completed.

7.12. Prudential Requirements

In accordance with clause 79(4) of the Code, Power Networks may impose a prudential requirement on a Network User in addition to a Capital Contribution in relation to a new or upgraded connection, which may take (but is not restricted to) one or more of the following forms:

- a) financial contributions;
- b) non-cash asset contributions;
- c) service charge pre-payments;
- d) minimum service charges or quantities for an agreed period; and / or
- e) financial guarantees.

The value of a prudential requirement will be in addition to the amount of the capital contribution.

7.13. Early or late payment

In accordance with section 73 of the *Planning Act*, Power Networks may:

- a) declare a discount for early or prompt payment of a Capital Contribution;
- b) levy interest for the late payment of a Capital Contribution; and
- c) refund some or all of a Capital Contribution in special circumstances.

8. Information required from a Network User

This section considers the information that a Network User must provide to Power Networks in order to receive a new or upgraded Network Access Service.

8.1. Nature of the Information to be Provided

A Network User seeking access to the network under an Access Agreement must lodge an Access Application containing the information set out in Schedule 2 of the Code.

Power Networks Access Offer to a Network User must contain, where appropriate, the information set out in Schedule 3 of the Code, including the amount of any Capital Contribution payable by the Network User. Schedule 4 of the Code sets out the indicative terms and conditions of an Access Agreement.

A Network User seeking new or upgraded Network Access Services through an Access Agreement will therefore provide in its Access Application the information Power Networks requires to determine the amount of any Capital Contribution.

Power Networks may require a Network User that is seeking new or upgraded Network Access Services, but which has not lodged an Access Application, to provide any of the

information provided for in Schedule 2 of the Code, or any other relevant information, in order to determine the amount of any Capital Contribution that the Network User must pay.

8.2. Provision of Accurate Information

A Network User seeking new or upgraded Network Access Services must provide accurate information to Power Networks to enable Power Networks to determine the appropriate level of payment or nature of works required from the Network User through a Capital Contribution.

Any failure by the Network User to provide accurate information may be a breach of the Act, the Code and the Network User's Access Agreement and may attract the penalties and sanctions provided for under those documents.

9. Contracting for Capital Contributions

In accordance with Schedules 3 and 4 of the Code, any Access Offer made to a Network User and, if this is accepted, any Access Agreement agreed between the parties, will detail the terms and conditions on which:

- a) Power Networks will provide new or upgraded Network Access Services; and
- b) the Network User will make a Capital Contribution to Power Networks.

Power Networks will contract with any Network User that connects to the network but does not enter into an Access Agreement. This contract will set out the terms and conditions for the connection and detail the nature and terms of any Capital Contribution required.

10. Regulatory Approval of this Policy

In accordance with clauses 62(1) and 81 of the Code, Power Networks will submit this Policy to the Regulator for approval prior to the commencement of each regulatory control period. Power Networks may amend this policy from time to time during a regulatory period, with amendments being subject to the Regulator's approval in each case.

11. Compliance with this Policy

Power Networks will complete a "Capital Contributions Return Form" of the kind set out in Appendix A for each new Capital Contribution levied in accordance with this Policy.

Power Networks will periodically submit these forms for review by the Regulator to enable it to oversee the application of this Policy in accordance with clause 62(1) of the Code.

Appendix A – Capital Contributions Return Form

Name of Project / Customer	
Region	
Applicant for new / upgraded connection – Customer ID – Invoice Number	
Nature of new / upgraded connection required	
Location of works	
Type of Capital Contribution to be made	
Party undertaking new / upgraded connection	
Expected investment timeframe (years)	
Justification for investment timeframe, residual asset value	
Inputs to Capital Contribution calculation: – Present value of capital and other costs – Present value tariff revenue Maximum allowable Capital Contribution charge	