

PowerWater

Capital Contributions Policy

29 April 2004

PowerWater

Capital Contributions

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2. Scope

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

3. Introduction

This Policy sets out the principles Power and Water (Networks) 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 Code and the Act and is intended to be referred to in all Access Agreements entered into between Power and Water (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 and Water (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 and Water (Networks) and a Network User in order to set out the standard terms and conditions for Power and Water (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 and Water (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
(08) 8924 5400 (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 and Water (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 and Water (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 and Water (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 and Water (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 and Water (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 and Water (Networks) where it subsequently undertakes the 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 and Water (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 is made by a Network User to Power and Water (Networks).

7.3. Network User's Choices

A Network User may choose the form in which it will make a Capital Contribution to Power and Water (Networks).

7.4. Types of Works

Power and Water (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, and where the cost of these assets (including design, construction, installation, commissioning and maintenance) cannot be recovered through future tariff revenue.

Power and Water (Networks) may levy such a Capital Contribution under the provisions:

- 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 the capital contribution"; and

- b) Part 6 of the Planning Act, under which Power and Water (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.

Examples of where Power and Water (Networks) may levy a Capital Contribution on a Network User include:

- a) *Developer Works within a Development* - This involves a developer procuring and funding the installation and construction of Connection Assets or Network System Assets that connect to the Power and Water (Networks) network. In this situation, the Capital Contribution would therefore involve transferring ownership of the new assets to Power and Water (Networks) – no financial payment would be made.
- b) *Increase in Capacity of a Connection Asset* – This involves an increase in a Network User's kVA capacity. In this situation, a Capital Contribution will be levied either in the form of:
- A financial contribution calculated in accordance with the principles set out in section 7.9 of this Policy; or
 - A contributed asset where the Network User chooses to procure and fund the installation and construction of the assets and transfer ownership to Power and Water (Networks).
- c) *Conversion from a Single to Three Phase Supply* – This involves increasing the connection from an existing single phase supply to a three phase supply. In this situation, a Capital Contribution will be levied either in the form of:
- A financial contribution calculated in accordance with the principles set out in section 7.9 of this Policy; or
 - A contributed asset where the Network User chooses to procure and fund the installation and construction of the assets and transfer ownership to Power and Water (Networks).
- d) *Network Augmentation* - This involves extending or augmenting the existing network along either a public road or within private property and making a new connection to the Network User's premises as a consequence of a new or

augmented connection requirement. In this situation, a Capital Contribution will be levied either in the form of:

- A financial contribution calculated in accordance with the principles set out in section 7.9 of this Policy; or
 - A contributed asset where the Network User chooses to procure and fund the installation and construction of the assets and transfer ownership to Power and Water (Networks).
- e) *Additional Connection Works for Reliability* – This would occur when an existing Network User requires an alternative supply arrangement in order to increase its reliability beyond the standard provided by Power and Water (Networks) under the security criteria provisions of its design and construction policy. This may arise, for example, if a Network User wants an emergency low voltage supply to a dedicated substation, an alternative high voltage supply from a different substation or feeder or an additional transformer and associated recoverable equipment. In this situation, a Capital Contribution will be levied either in the form of:
- A financial contribution calculated in accordance with the principles set out in section 7.9 of this Policy; or
 - A contributed asset where the Network User chooses to procure and fund the installation and construction of the assets and transfer ownership to Power and Water (Networks).
- f) *Recoverable works* - These works would arise if, for example, a Network User requires assets to be relocated, assets to be reinstated following other works or assets to be repaired following damage. In this situation, a Capital Contribution will be levied either in the form of:
- A financial contribution calculated in accordance with the principles set out in section 7.9 of this Policy; or
 - A contributed asset where the Network User chooses to procure and fund the installation and construction of the assets and transfer ownership to Power and Water (Networks).

This list is not intended to be exhaustive and this Policy may cover other types of works. Power and Water (Networks) encourages Network Users to contact it to discuss other types of works that may be covered by this Policy.

7.5. Contestability of Works

Power and Water (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 and Water (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 and Water (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 and Water (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 and Water (Networks) at no cost to Power and Water (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 and Water (Networks) or its customers. Power and Water (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 and Water (Networks).

Power and Water (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 and Water (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.

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 allocated capital, operations and maintenance costs of the required works less the present value of the projected future tariff revenues earned from the connection and any residual value of the works. That is:

$$\text{Capital Contribution} = \text{PV (capital cost of connection + operating and maintenance expense)} - \text{PV (customer tariff x volume, + residual value of works)}$$

Where:

- a) The “capital cost 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.

where the optimisation is determined subject to clause 7.7 above.

- b) The “operating and maintenance expense” is calculated based on the projected efficient operating and maintenance expense of the Connection Assets and Network System Assets dedicated to the applicant Network User and an apportionment of the expenses relating to any shared assets;
- c) The “customer tariff” is that which is actually charged to the Network User, which may be different to the general network tariff schedule;
- d) 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 and Water (Networks) and assumed constant over the relevant investment timeframe;
- e) The “residual value of works” is the value of the assets (if any) at the end of the relevant investment timeframe;
- f) 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 price cap for the second regulatory period, updated parameter values since the time of the regulator’s second regulatory period decision and the provisions of clause 80(6) of the Code; and
 - An investment timeframe relevant to the circumstances of the particular user and connection, up to a maximum of fifteen years.

A Capital Contribution will only be levied if the outcome of the application of the above formula is a negative value (ie 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 and Water (Networks), the capital and maintenance costs will be valued at their actual cost to Power and Water (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 and Water (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 and Water (Networks), the financial Capital Contribution will be recovered through a single up-front payment from the Network User to Power and Water (Networks) before it commences the related works.

In the case of works that are physically contributed to Power and Water (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 and Water (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 and Water (Networks) once the new assets have been completed and commissioned and all of the necessary inspections and testings have been completed.

In accordance with the relevant provisions of the Access Agreement and section 71(3) of the Planning Act, Power and Water (Networks) may make a demand against a Network User for any Capital Contribution that is due and payable. Any such amount would be an "overriding statutory charge" within the meaning of the Land Title Act on the related land. Power and Water may take proceedings to recover any such amount.

7.12. Prudential Requirements

In accordance with clause 79(4) of the Code, Power and Water (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 and Water (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 and Water (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 and Water (Networks)'s 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 and Water (Networks) requires to determine the amount of any Capital Contribution.

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

Power and Water (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 and Water (Networks) will submit this Policy to the Regulator for approval prior to the commencement of each regulatory control period. Power and Water (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 and Water (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 and Water (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.

Submitted by:

Mick Clifford
Manager Economic Services

Approved by:

Richard Earl
General Manager Power Networks
[DATE] 2004

Appendix A – Capital Contributions Return Form

Name of project	
Region	
Applicant for new / up-graded connection <ul style="list-style-type: none"> - Customer ID - Invoice Number 	
Nature of new / up-graded connection required	
Location of works	
Type of Capital Contribution to be made	
Party undertaking new / up-graded connection	
Expected investment timeframe (years)	
Justification for investment timeframe, residual asset value	
Inputs to Capital Contribution calculation: <ul style="list-style-type: none"> - Present value of capital, O&M costs - Present value tariff revenue, residual asset value Maximum allowable Capital Contribution charge	