Customer Contribution Policy

December 2022

Pursuant to:

Electricity Distribution Information Disclosure Determination 2012 (Clause 2.4.6)

1. Table of Contents

2. Glossary

Abbreviation/Term	Definition or description
Allowances	The amount, set by the Commerce Commission, that a EDB is allowed to collect from customers. This is the amount an EDB has to run its Distribution network.
Commissioned Assets	New assets that are installed and ready for use in the Wellington Distribution network. The value of the new assets are added to the RAB on commissioning.
Commerce Commission	New Zealand Commerce Commission (NZCC)
Connecting Customer	A person, residential or business that wishes to connect to the distribution network
Consumer or customer	A person, residential or business, that uses electricity or acquires electricity lines services
Customer capital contributions	A customer contribution towards the capital cost of designing and installing the new connection assets or any new assets needed to adjust their existing services
Default Distribution Agreement (DDA)	The default commercial and operational contractual terms between EDBs and electricity retailers for the provision of electricity distribution services.
Demand	Electricity use at a point in time
Direct Agreement	A contract directly with a customer that provides additional operating or commercial terms or responsibilities to those provided by we*s Network Connection Standards or Default Distribution Agreement with Retailers,
Distribution Network	A distribution network is the network of equipment that carries electricity from the high voltage transmission grid to industrial, commercial and domestic users

Distribution pricing practice note	The 2021 distribution pricing practice note 2nd edition 2021 provides guidelines to help distributors interpret and apply the distribution pricing principles. This can be found on the Electricity Authority's website.
DPP	The Commerce Commission sets a price-quality path for each regulated lines company - a price path is the maximum total revenue a lines company can recover from its consumers and the quality path is the minimum level of quality of service that it must provide. A default price path (DPP) is a low cost, standard method of calculating the price-quality path for lines company's not on a CPP
DPP Determination 2020	we*'s current price-quality path, Decision No [2020] NZCC 25, Electricity Distribution Services Default Price-Quality Path (Wellington Electricity transition) Amendments Determination 2020
EDB	An Electricity Distribution Business is an entity that owns and operates an electricity distribution network to provide electricity distribution services
Electricity Authority	The Electricity Authority. The Electricity Authority is an independent Crown entity responsible for the efficient operation of the New Zealand electricity market. It is the electricity market regulator
Electricity distribution services	Electricity distribution services are the conveyance of electricity on lines from the transmission GXP to consumers ICPs
Headworks	The headworks is the augmentation of the existing network to meet the capacity and/or security of supply requested by the customer, which is not available from the existing network.
HV	High Voltage – equipment or supplies at voltages of 11kV, 22kV or 33kV
ICP	An Installation Control Point (ICP) is a physical point of connection on a local network or an embedded network that the distributor nominates as the point at which a retailer will be deemed to supply electricity to a consumer

ID Determination 2012	Electricity Distribution Information Disclosure Determination 2012 – consolidated version – 9 December 2021
IM Determination 2012	Electricity Distribution Services Input Methodologies Determination 2012 (consolidated 20 May 2020) – 20 May 2020
LV	Low Voltage – equipment or supply at a voltage of 230V single phase or 400V three phase
Network	The electricity distribution network owned by Wellington Electricity Lines Limited for the conveyance of electricity. Network assets include substations, lines, poles, transformers, circuit breakers, switchgear, cabling etc.
Network Connections Standards	The operational standards customers must meet when connection to the Wellington Distribution network. The Network Connections Standards are published on we*s website.
Point of connection	A point at which a consumer's fittings interconnect with the Network as described by diagrams as used from time to time by Wellington Electricity Lines Limited
Pricing Methodology	Wellington Electricity Lines Limited's Pricing Methodology Disclosure Document outlining how it sets its tariffs used to recover the cost of operating the Wellington distribution network.
Pricing Principles	The Electricity Authority's updated Distribution Pricing Principles have been provided in "Distribution Pricing: Practice Note", August 2019. This can be found on the Electricity Authority's website.
RAB	Regulated Asset Base – is the regulated value of the distribution assets that Wellington Electricity uses to provide line function services

Tariffs	we*s prices it charges for using electricity distribution services.
Tariffs – standard (published)	Standard prices that we sets each year for using electricity distribution services. Standard tariffs are published each year on we*s website.
Tariffs – nonstandard	Non-standard tariffs are negotiated directly with a customer. Non-standard tariffs are used to reflect costs, operating terms, commercial terms, or service levels different to we*s standard offering.
we*	Wellington Electricity Lines Limited

3. Introduction

This Policy describes Wellington Electricity Lines Limited's (we*) methodology for calculating customer capital contribution. The Policy meets the requirements of clause 2.4.6 of the *Electricity Distribution Information Disclosure Determination 2012*.

we* owns and operates the electricity distribution network in the Wellington region. We manage the poles, wires and equipment that provide electricity to approximately 400,000 consumers in the Wellington, Porirua, Lower Hutt and Upper Hutt areas. we* recovers the cost of providing electricity distribution services through a combination of standard (published) and non-standard tariffs, and customer capital contributions from new connections.

we*s standard and non-standard tariffs recover the cost of operating the existing distribution network. The costs to operate the distribution network include on-going maintenance costs, the cost to replace aging assets, electricity power restoration, business and network support costs and vegetation management. Tariffs also fund building new network capacity to support new connections and increasing customer demand. These costs are for assets and services that many customers benefit from and therefore are shared across customers.

The cost of a new customer connecting to the network or customers altering their existing services, are funded by either (or a combination of) tariff and upfront customer capital contribution. These costs are for assets that only the connecting customer, or the customer altering their existing connection benefit from. The cost of connecting to the network or altering existing services is the capital cost of designing and installing the new connection assets or any new assets needed to adjust a customers existing services. Figure 1 summarises how distribution service costs are recovered.

Figure 1 – how distribution service costs are recovered

Distribution service costs	Costs are recovered by:
Costs to operate the existing network, including maintenance, vegetation management, asset replacement, service interruptions and emergency responses, system interruptions, network and business support.	Tariffs
The costs of building new capacity to allow future customers to connect and to deliver increasing electricity demand	Tariffs
Capital costs to connect to the network and costs to relocate network assets at a customer's request	Customer capital contribution and/or tariffs

Details of how we* calculates tariffs and the ongoing costs of operating the network that tariffs fund, are provided in a separate Information Disclosure call the Pricing Methodology. The Pricing Methodology Information Disclosure can be found on we*s website (https://www.welectricity.co.nz/disclosures/pricing/). The calculation of the ongoing costs of operating the network includes how we* recovers the cost of capital investments made and how the return for those investments is calculated.

This Policy provides the methodologies for calculating the customer capital contribution towards the capital costs of new connections and alternations to existing connections.

A customer capital contribution payment is a one-off payment made at the start of a project and is used to directly fund capital works. The rules (known as the Input Methodologies), used to calculate the on-going allowances[1] a network has to fund the operation of a network, require that the customer capital contributions are excluded from the allowance calculation. This reflects the customer rather than we*, has funded some or all of the capital costs of connecting. This also means that the customer capital contribution is excluded from tariffs, ensuring the assets are not paid for twice.

Practically, customer capital contributions are excluded from allowances by subtracting the contributions from the value of the assets added to the Regulatory Asset Based (RAB). The RAB records the value of the assets that we* has invested in and is used to calculate the allowances that a distribution network operator is provided to recover the cost of purchasing the assets and the return for making that investment. Excluding customer capital contributions from the RAB ensures a customer's investment is not included in allowances and tariffs.

[1] In the absence of competition (distribution services are generally a natural monopoly) the Commerce Commission sets how much money a distribution network operator has to operate the network, which in turn controls prices. The total funding that a network has to operate is referred to as a distribution network's allowances. The Commission sets allowances and prices at a level that reflects prices that would be experienced in a competitive market.

4. Objectives of the customer contribution policy

Under the regulatory framework for distribution businesses, distribution businesses will fund the cost of new customers connecting to the network or altering their existing services, from an increase in tariff revenue from the new customer and/or from a customer capital contribution. This ensures other customers remain at least cost neutral from the new connection. Preferably, new customers should also contribute towards the shared costs of operating the network so that existing customers benefit from the economies of scale from shared costs being spread over a larger number of customers.

The Electricity Authority's Distribution Pricing Principles 2019 provides pricing principles for distribution networks to use when developing their tariff structures and their Customer Contribution Policy's. we*s Customer Contribution policy considers the Pricing Principles.

The primary objective of the Policy is to ensure that the incremental costs from a customer connecting to the network or changing their existing services, are funded by the customer benefiting (i.e. the customer connecting or changing their services).

The Customer Contribution Policy has been designed using the following principles:

1. Existing customers should be no worse off due to the new customer connecting or changing their existing services.
2. Incremental costs of a new customer connecting or changing their existing connection are determined using an avoidable cost approach - the cost that can be avoided if the customer was not connected or their existing connection was not altered.
3. Incremental costs include any network reinforcement to the upstream network. If the upstream network reinforcement will benefit other existing or future customers, only a proportion of the network reinforcement cost will be included in the customer capital contribution calculation, allocating some of the costs to other customers who will also benefit.
4. Preferably, new customers connecting to the network should also contribute towards the shared networks costs, allowing existing customers to benefit from the economies of scale provided from more customers using the network.
5. Provide tariffs and customer capital contributions that let customers assess other alternatives to using the distribution network. This includes considering energy savings to avoid increasing their connection capacity or whether alternative energy sources would be more economic.

we* calculates a customer capital contribution as the difference between the incremental revenue provided by a new connection or a change to an existing connection, less incremental cost of the new connection or change to the existing connection, less a contribution towards the shared network costs.

Customer capital contribution	=	Incremental revenue	less	Incremental cost of connecting	less	Contribution towards shared costs

This ensures that the connecting customer receiving the benefits from the connection, fund all the costs of connecting or augmenting the existing connection. Therefore, existing customers will be no worse off.

5. When will a customer capital contribution be required

we* may require a customer capital contribution towards capital expenditure when a customer requests:

1. A new connection
2. A change to an existing connection. This includes a request for more capacity or for a change in any operational restrictions agreed for the original connection.
3. The relocation of we*s assets

Customer contribution arrangements are entered into between we* and the customer(s) requesting the capacity required for their connection and the security of supply from the network. The customer contribution represents the amount paid by a customer to contribute to the cost of work necessary for the customer to obtain a supply of electricity at the price and quality choices they determine. For example, the contribution could relate to additional assets necessary for the customer to connect to the network. Examples of the additional assets are:

- Overhead lines;
- Underground cables;
- Pillars;
- Pits;
- Switchgear; and
- Transformers.

The calculation and methodology for determining the amount of a customer capital contribution towards the capital costs of a new connection or altering an existing connections, is based on the size and cost of the project. we* will provide quotations based on the cost of the assets and works required. If a customer requests capacity that exceeds the optimised level of the asset (i.e. the connection results in spare capacity), the additional cost will be charged to the customer.

At a later date a customer may find that their capacity requirements have changed from the original connection request, and they don't need all of the capacity provided. we* may consider applying a fuse and a lower tariff in limited circumstances – the limited circumstances relate to whether the circumstances of the original connection have changed (e.g. a significant reduction in demand or peak demand) **and** whether the revenue from the lower tariff is high enough to fund the cost of connecting. In most cases the higher tariff will need to remain to pay for the original connection cost – especially for dedicated connections (where only one customer uses the connecting assets) because spare capacity on a dedicated connection cannot be used for other customers. we* applies strict criteria when considering tariff downgrades to ensure the connecting customer still pays for the connecting assets and other customers don't subsidise the capital cost of the connection.

Customer connections and upgrades to existing connections will be designed, priced and implemented in accordance with we*'s Distribution Connection Code (published on its website) and network security settings provided in we*'s Asset Management Plan.

Even though a customer contributes to the capital costs of connecting to the network, the connection assets are owned and maintained by we* and not the customer.

we*'s Capital Contribution Policy requires that the customer contribution is received before works commence. In some limited circumstances, we* may, at its discretion, provide prior approval for the customer contribution to be received subsequent to work starting on site. However, no livening will

be permanently provided until all contributions have been received and the customer has a Retail contract for electricity supply.

5.1. Using independent contractors

we* will deliver the work in accordance with we*s technical standards using approved contractors. we* may, at its discretion, provide prior approval for a customer to select an independent contractor, that is certified to work on the Wellington network, to undertake **some** of the work based on pre-approved terms and conditions. For example trenching in a new subdivision can be performed by an external service provider based on the appropriate technical standards and certification of the resultant work. we* will charge a fee (if required) to oversee / review the work undertaken by the external service provider as we* needs to ensure the integrity of the network is maintained (refer to section 7.1).

6. Customer contribution calculation methodology

The general approach to calculating a customer capital contribution is a customer capital contribution = incremental revenue less incremental costs less contribution towards shared costs.

The specific application of this general approach varies depending on the size and complexity of the project. Simplified calculations based on standard or average cost estimates are used for small and medium connections. Larger, more expensive connections use calculations based on detailed cost estimates and use more complex modelling techniques. we* applies four different project categories and calculation methods to calculate the capital contribution required from the customer.

we* retains the discretion to select the project category that is applied to the customer. An indication of how we* expects to allocate projects to categories is outlined below.

- **A – "Standard" pricing** – residential connection, residential sub-division or single small commercial connections (connections that are not connected using a dedicated substation).
- **B – "Medium" pricing band** – commercial sub-division (including multi-floor high rise) and single connection via dedicated substation less than 1.5MVA
- **C – "Complex" pricing band** – where neither "standard" or "medium" pricing bands are appropriate to the circumstances of the customer
- **D – "Relocations" pricing band** – where the customer requests a relocation of we*'s assets

The method for calculating the customer capital contribution for each project category is described below. In addition to the customer contribution calculated below, other charges will be applied where applicable (refer to section 3).

All customer contributions are based on a GST exclusive value.

A. "Standard" pricing – residential connection, residential sub-division or single small commercial connections (connections that are not connected using a dedicated substation).

For new residential and small commercial connections, the size of the customer contribution for a "Standard" connection is dependent on the project cost (including headworks) of a new connection. Figure 2 provides the customer capital contribution for residential connections or, residential sub-division or single small commercial connections (connections that are not connected using a dedicated substation).

New connections or connection upgrade type	Customer capital contribution to connection cost
Rural connections that require a new transformer	Full value of the project cost, less the cost of the transformer (which we* will fund)
Upgrades to existing connections	Full value of the project cost
Project cost of a new connection is less than $6,000	Full value of the project cost
Project cost of a new connection is between $6,000 and $14,999	$6,000
Single residential or commercial connection project cost of a new connection is $15,000 or above	Full value of the project cost less $9,000
Subdivision (multiple ICPs) project cost is $15,000 or above	The lesser of: - the full value of the project cost less $9,000, and - the full value of the project cost less the number of ICPs multiplied by $750
Replacement of old-style customer connection assets like fuse terminal boxes (i.e. under veranda boxes and foundation boxes) and 'hard-tapped' connections (i.e. crutch/breach joints and D&S switches), with pillars or pits.	we* will contribute 50% of the replacement cost of replacing these types of connections with pillars or pits. we*s contribution reflects the age of the assets being replaced and we* asset replacement programme.

we*s contribution towards the cost of connecting is calculated as the difference between average incremental tariff revenue expected from the new connection and the average incremental cost of connecting. we* may re-calculate the amount of its contribution if tariffs change or the average new connections costs change.

we* will calculate the customer capital contribution. The customer capital contribution calculation is subject to the following conditions:

1. New connection to a single switchboard which then supplies multiple properties or connections (e.g., apartment block), will be treated as a single connection.

2. 'Upgrades to existing connections' includes customer requests for a supply upgrade from single to two/three phases where the load increase would exceed a typical 63amp new connection.
3. In the case of a larger installation (over 200kVA), complex connection or unusual connection or upgrade solutions, we* may choose to calculate the contribution using either the "Medium" or "Complex" contribution methods.

B. "Medium" pricing band – commercial sub-division (including multi-floor high rise) and single connection via dedicated substation less than 1.5MVA

Developer/owner share of connection costs	Ongoing line charges
Up-front full value of the non-recoverable project costs and headworks fee (if applicable).	Published tariffs.

Recoverable costs – are costs that can be recovered through ongoing tariff revenue and/or assets that can be re-deployed or otherwise optimised by we* if the customer no longer requires the extra capacity. For example, the cost of transformers and HV switchgear where there is sufficient capacity demands for them to be redeployed elsewhere within the network.

Non recoverable costs – are all other costs including installation costs, project management costs and assets that cannot be recovered, redeployed or optimised by we* if the customer no longer requires the capacity or the lines charge does not recover capital investment of connection or headworks assets.

C. "Complex" pricing band - The project is classified in the "complex" pricing band if a customer requests a new connection where, the pricing requires non-standard terms and conditions and/or in we*'s opinion and at we*s discretion:

i) the customer represents an unusual credit risk; or
ii) the customer wants to reserve future network capacity; or
iii) there are unusual asset ownership or demarcation issues; or
iv) the customer and/or we* wish to contract to additional services; or
v) the site to be connected has unusual locational or security issues; or
vi) the connection has additional operating or commercial terms or responsibilities than those provided in we*s Network Connection Standards[2] or Default Distribution Agreement[3] with Retailers.
vii) the connection relates to a commercial subdivision (including a multi-floor high rise building) and single connection via a dedicated substation 1.5MVA and above and/or is a high voltage connection.

[2] we*s Network Connection Standard can be found at: https://www.welectricity.co.nz/getting-connected/network-connection-standard/

[3] we*s Default Distribution Agreement can be found at: https://www.welectricity.co.nz/disclosures/dda/

Developer/owner share of connection costs	Ongoing line charges
Contributions are calculated using a net present value (NPV) model using the formula below.	Published tariffs or on a case-by-case negotiated Direct Agreement and tariff.

If the connection has additional operating or commercial terms or responsibilities to those provided by we*s Network Connection Standards or Default Distribution Agreement with Retailers, the connection may require a non-standard Direct Agreement with we*. A Direct Agreement is a contractual agreement between we* and the customer which includes the additional operating or commercial terms or responsibilities. A Direct Agreement replaces the Default Distribution Agreement terms that we* has with Retailers (and that Retailers pass through to customers) for distribution services.

We* will negotiate the additional operating or commercial terms or responsibilities with the connecting customer. This may include an on-going tariff structure that differs from we*s published tariffs.

Customer contribution = total NPV of the initial costs + incremental costs (IC) + other charges - incremental revenue (IR). The model inputs are described in Figure 3.

Figure 3 – inputs into the Complex pricing NPV calculation

Input	Input detail
Initial costs	Up front full value of the directly attributable project costs.
Incremental costs	• **Transpower transmission charge -** using the customer's expected usage and the applicable Transpower transmission charges. • **Maintenance costs -** directly relating to the project. • **Headworks fee (marginal cost of reinforcement) -** charges that are levied to address augmentation to the shared network required due to a new customer connecting (refer to section 3.2 for further details on this charge). • **Tax -** incremental revenue less initial and incremental costs and other charges multiplied by the tax rate.
Other charges	• **Excess demand charge -** payable, at we*'s discretion, if demand exceeds contracted capacity. The quantum of the charge will vary with connection and relevant network asset utilisation and value. • **Termination charge -** takes the form of a customer bond or up-front contribution and is set at the total value of the connection project. This charge is only applied at term, or at early termination, of the contract. It covers we*'s risk relating to the connection's new investment costs. The Termination

Input	Input detail
	Charge does not attract an annual CPI adjustment. The Termination Charge is reduced at each successive contract term renewal based on "straight line" project cost amortisation. The Termination Charge applicable to successive renewals will be the straight-line reduction value applicable at the time of Agreement renewal execution. • **Contribution to shared network costs –** we* may apply a contribution towards the shared costs of operating the network. This would help ensure new connecting customers are also contributing towards the shared costs. • **Reconnection charge -** applicable charge for reconnection to the Distribution Network. • **Capacity change request fee -** this amount reflects we*'s estimated actual administrative costs in determining availability and terms on which excess capacity would be made available.
Incremental revenue	Revenue using the customer's expected usage and the applicable negotiated tariffs.

The NPV is calculated over the average expected life of network fixed assets using the estimate of vanilla WACC (67th percentile estimate) set by the Commerce Commission for the relevant DPP regulatory period.

D. "Relocations" pricing band

The customer contribution is classified in the "relocations" pricing band if a customer requests a relocation of we*'s network assets. For example if a customer requests we* to relocate a pole on their own private land to a new alignment or to transfer overhead lines to underground cables.

Developer/owner share of relocation costs	Ongoing line charges
Up-front, full value.	Published tariffs.

Where it is technically and legally possible for we* to relocate network assets at the request of a customer, then all costs incurred will be charged to the customer.

In the case of a third party owned pole (e.g. Telecom or public transport overhead network) that supports we*'s assets and is being relocated by the third party, then the third party pays for the cost of relocating the pole and we* pays for the cost of relocating we*'s assets.

The relocation costs charged to a customer may include the cost of disposing and/or replacing an asset if an asset is not being utilised in a relocation, or the asset cannot be used elsewhere on the network. we* may fund the disposal and replacement of an asset being relocated if it's near the end of its asset life and is due to be replaced as part of the asset replacement programme. we* will consider the assets health and whether the asset being replaced is included in the replacement budget.

If a customer relocation includes upgrading an asset that is due for replacement, we* may consider funding an equivalent of the replacement cost and the customer would pay the incremental cost of upgrading. For example, if a customer wanted to transfer an overhead asset underground and the asset was due for replacement, we* may make a contribution equal to the apportionment of the replacement cost for the affected overhead line section. Any decision to may a contribution is at we*s discretion and will depend on other factors like budget availability.

7. Other charges

Other charges that may be applicable are listed below.

7.1. Network connection / disconnection fees

Network connection / disconnection fees are for those activities associated with any augmentation of the network that can only be provided by we*. Augmentation may form part of the connection / disconnection services we* provides to a customer to allow the supply of electricity from we*'s distribution network to an electrical installation of the customer. The fees can be classified into two components:

- Project fees; and
- Other fees and charges.

The project fee is used to recover costs in relation to preparation of the Offer for Network Connection Services including network planning, preparation of the design and associated administration costs. The amount of the fee will differ depending on the nature and the size of the project. If the project goes ahead the project fee is included in the initial costs in the customer contribution calculation (refer to section 6).

The project fee is non-refundable (irrespective of whether the project goes ahead) and is paid when the request is made for an Offer for Network Connection Services.

Other fees may be levied when we* is required to perform work that is not covered by the customer capital contributions or project fee. Such fees generally arise where construction work is undertaken by an external service provider.

7.2. Headworks fee (marginal cost of reinforcement)

The headworks fee (marginal cost of reinforcement) is a charge levied to the new customer connection to address the augmentation to the existing network to meet the capacity and/or security of supply requested by the customer which is not available from the existing network.

Specifically, there are network areas which can become capacity constrained based on the new connection demand or security of supply requirements. To manage the new load demand, the existing network needs to be strengthened with a larger capacity infrastructure. The customer making the new connection will be required to pay an appropriate proportion of the capacity reinforcement works.

we* will charge the headworks fee on the "Standard", "Medium" and "Complex" pricing band customers where existing network capacity becomes constrained from a new connection. The headworks fee is included in the NPV model of the "Complex" pricing band.

we* will determine, on a case-by-case basis whether the headworks fee is required for other network areas based on scale. Headworks fees may include augmentation at the substation level or investment in a new substation for large customer load requirements and may also result in higher transmission charges.

7.3. Cost reapportionment for shared assets

we* may at its discretion, employ on a case-by-case basis a process for re-apportioning the costs of a customer funded network extension that is subsequently connected to by other customers within a defined period. The reapportionment will be on a pro-rata basis and subject to depreciation. Any payment by the new connecting customer will be made to we* and we* will make a payment to the customer who funded the initial works. we* will determine the reapportionment and payment process.

7.4. Recoverable costs for damage to existing works

we* is required from time to time to perform remediation work on its assets to ensure public safety and continuity of the supply of electricity following an adverse event which impacts the resilience of the asset (e.g. repair and relocation of assets. Where damage has been identified as being caused by a third party, we* will recover such costs from the third party responsible for the damage or loss.

Recoverable works include:

- Restoration of damage, including theft or loss, to we*'s supply network and associated property (for example a pole hit by a car or damage caused to a we* vehicle); and
- Relocation of we* assets as requested by third parties and outlined in section 6D above.

8. Pricing principles

The Electricity Authority's Pricing Principles are contained in the "Distribution Pricing: Practice Note", August 2019. we* understands that Pricing Principles consist of well accepted, high-level principles and were introduced on a voluntary compliance basis.

we*s Pricing Methodology describes its price setting methodology and outlines how costs are allocated to and recovered from the consumer groups who receive electricity distribution services from the Wellington distribution network – including the allocation and recovery of the cost of connecting to the network and the application of this Customer Contribution policy. The Pricing Methodology also includes a detailed assessment of how the Pricing Methodology meets the Pricing Principles (including the application of customer contributions). The Pricing methodology is published on we*s website (https://www.welectricity.co.nz/disclosures/pricing/).

Where relevant, we*'s customer contribution policy is consistent with the pricing principles for the following reasons:

- Customer contributions are based on incremental costs and discourage cross-subsidisation from existing customers for new customer connections;

- Customer contributions are responsive to the circumstances of the customers and are calculated based on the capacity required by the customer, the security of supply required

by the customer, the level of available capacity, security of the present network configuration and the impact on upstream investment costs;

- Tariffs and customer contributions are set at a level that allows customer to consider whether there are more economic alternatives to connecting to the network or altering their existing connections.
- Customer contributions are recovered when the cost of the works will not be recovered through ongoing tariffs and/or requires expenditure that is not compensated for under the relevant DPP or CPP Determination set by the Commerce Commission; and
- The customer contribution policy is transparent and the impact on stakeholders is considered when setting / updating the policy.

Figure 4 sets out the Electricity Authority's Pricing Principles.

Figure 4 - Electricity Authority's Pricing Principles

Pricing Principles		
(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)	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;
(d)	Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.	