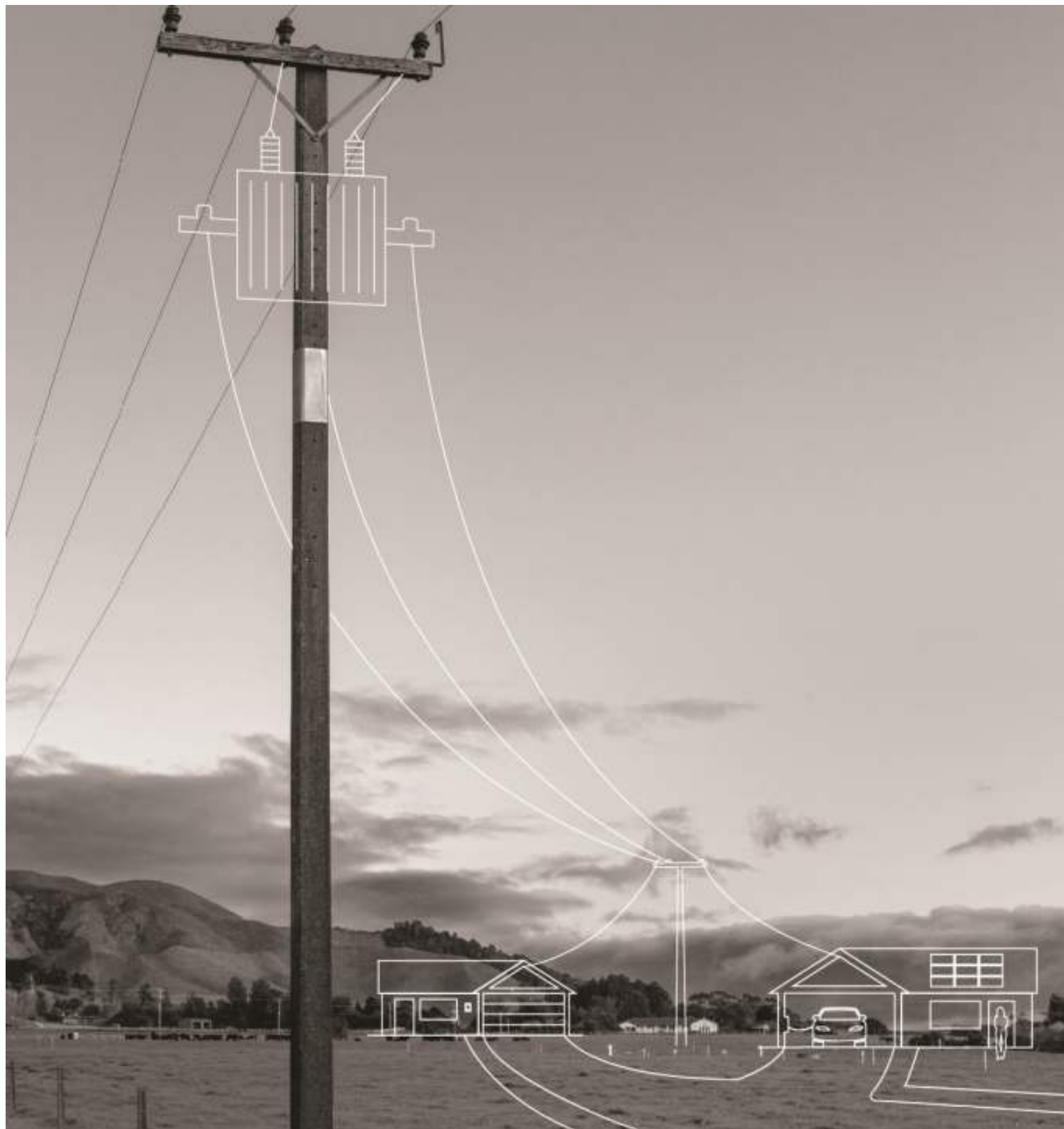




Guide to electricity capital contributions



Updated 10 September 2025

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Introduction

This policy describes Powerco Limited's methodology for calculating contributions from customers towards the capital costs of connections and upgrades to Powerco's electricity distribution network. The policy meets the requirements of clause 2.4.6 of the Electricity Distribution Information Disclosure (amendments related to IM review 2023) Amendment Determination 2024.

If you want to connect to Powerco's electricity distribution network or you require alteration to existing services, we may require you to contribute towards the capital costs of the design and installation of these electricity assets. This payment is called a capital contribution or a customer contribution.

This policy outlines when you may be required to contribute, how the amount is calculated, and the process that is followed. There is more information on the process for connection to and enhancing existing connections at: <https://www.powerco.co.nz/get-connected>

Powerco reviews its policy on customer contributions annually. This policy is updated on [the Powerco website](#) following any changes. After reading this policy, if you have any further questions about our customer contributions process, please contact Powerco using any of the following details:

General Enquires: generalenquiries@powerco.co.nz

phone: 0800 POWERCO (0800 769 372)

web: www.powerco.co.nz/Contact-Us

Large commercial and industrial customers who have a Powerco Account Manager should contact their Account Manager directly or email Commercial.Queries@powerco.co.nz for any questions on customer contributions.

Why we need to ask for customer contributions

Powerco's electricity network is constantly growing with the development of new homes and businesses. As a result, consumers will require new assets to connect to the network or upgrade existing assets as their electricity demand increases. To be fair to our other electricity consumers, we sometimes require a customer contribution.

Customers with new and enhanced connections will pay line charges, like existing customers, but if these line charges won't be enough to recover the costs of the new or changed connection, then customer contribution is required. Without customer contributions, existing customers would bear some of the cost.

A customer contribution is an upfront payment by a customer towards the costs associated with customer work where:

- customers need extensions or reinforcements to the electricity network that will benefit them
- customers connections to the network that require new assets to be built

The principal objective of the customer contribution is to ensure the incremental (uneconomic) costs associated with any connections and enhancements are paid for by the customer who requested them so that existing customers (that require no additional investment) don't pick up any extra costs from changes they weren't responsible for.

A secondary objective of the customer contribution is to ensure customers can compare the cost of connecting to the network (or increasing their load) over other options that may be available to them. These other options could include increased energy efficiency to offset any required load increase, onsite generation, and/or alternative fuel sources such as gas or battery storage.

An alternative to upfront customer contributions would be for Powerco recover the contribution amount over several years. Powerco would undertake the full investment and recover the additional costs from the consumer through an "adder" to standard lines charges over a period of time. This would result in paying higher line charges, as opposed to paying for it upfront.

Where appropriate, we can offer the option for very large customers whose connection pricing is calculated individually, to pay customer contributions over several years. This approach is not practical for smaller customers because:

- the assets built are likely to have a long life (eg over 40 years) and it is not reasonable to expect individual consumers to be locked into a contract for this length of time
- in practice, charging arrangements need to be reasonably simple and consistently applicable to a large number of customers; it is not usually feasible to tailor charges to individual customers, unless they are very large
- how a new connection or new investment will be used in the future, and by how many parties, is unknown, so it is not possible to accurately estimate the revenues received and the subsequent costs that should be recovered from an individual consumer.

Customer work process

Powerco moved to a direct-to-customer model from 1 September 2025 where we assess applications and manage delivery ourselves through a network of primary, secondary and customer delivery contractors.

Under this model, there are three pathways for connections and enhancements:

1. **Network ready** - the existing network is fully able to support the connection. Jobs follow a streamlined process with standard pricing.
2. **Simple** - includes moderate complexity jobs that may require some network development, such as minor extensions or upgrades. Jobs can be standard priced or non-standard priced and may or may not require a design contribution upfront.
3. **Complex** - requires a flexible delivery approach due to significant network development, complex design, commercial or legal requirements. Jobs usually involve significant network development, a separate design phase and bespoke payment plans.

Further information on these pathways can be found on [our website](#).

The change to contracting directly with customers has made it possible for us to standardise the prices for small standard jobs¹. These standard prices are the total capital contributions that customers need to make to get connected and allows us to approve straightforward applications almost immediately. Customers also know exactly how much eligible jobs will cost to complete even before they apply. These standard prices are the customer contribution necessary to make or change a simple connection efficiently and fairly.

For any jobs without a standard price, we'll calculate the cost of each job and the fair and efficient capital contribution from the customer necessary to carry it out.

¹ <https://www.powerco.co.nz/get-connected/electricity-for-home-and-business/electricity-connection-pricing>

Can I use my own contractor?

A major change of our customer engagement model in 2025 is that Powerco now manages the contestable procurement of electricity field services². As part of tendering these services, we now have agreed terms for customer connection and enhancement work.

Figure 1. Change in contribution model

FROM	Total cost = Powerco Contribution + Customer Contribution	
	<i>Fixed (max)</i>	<i>Variable (balance)</i>
TO	Total cost = Powerco Contribution + Customer Contribution	
	<i>Variable (balance)</i>	<i>Fixed</i>

In our old model, customers engaged contractors directly for customer work. We often found duplication and inefficiencies in the commercial processes, and inconsistencies between what each contractor offered, causing confusion for customers. Rather than considering each customer work request in isolation, it is more efficient for us to consider each job in the context of the best approach for the network (all customers) and other work planned in the area, both customer and network driven.

Customers are free to get quotes from multiple contractors³ for dedicated generation connections which are not regulated in the same way as load and mixed load/generation connections. You can find more information, including our policy on connecting distributed generation, on our website⁴.

Can I use a non-network solution?

A secondary objective of calculating contributions is to ensure customers can compare the cost of connecting to the network (or increasing their load) over other options that may be available to them. If you are in a remote rural location and there is some distance from existing power lines to your property, new connections are likely to require a significant amount of investment.

There are a number of stand-alone power solutions on the market designed to deliver the convenience of power line delivered electricity at a lower overall cost for remote locations which combine on-site site generation with alternative fuel sources such as gas or battery storage⁵.

Will I have to pay a contribution and how will it be calculated?

This section describes the circumstances in which a customer may have to pay a capital contribution.

² <https://www.powerco.co.nz/news/media/powerco-electricity-contracts-going-to-tender>

³ Customers have freedom to choose their supplier of generation connections. However, Powerco also has an unregulated affiliate, Powerco Transmission Services which offers generation connection.

⁴ <https://www.powerco.co.nz/get-connected/solar-power-for-home-and-business>

⁵ Customers have freedom to choose their supplier of standalone power supplies, however, Powerco does offer off-grid solutions through its unregulated Base Power affiliate, see here: <https://www.powerco.co.nz/get-connected/off-grid-solutions>

When you apply to connect to Powerco's network, or require additional capacity, we will follow the principles below to determine if you need to pay a customer contribution and, if so, the amount of your contribution.⁶

Customer contribution assessment principles

Powerco's electricity network is a natural monopoly so the amount of money we are allowed to charge for using our network is regulated by the Commerce Commission. For any customer work that doesn't have a standard price, the level of investment Powerco makes is directly related to the regulated return that Powerco is allowed to recover once the work is completed. The return is determined based on:

- a) The new revenue received from the new customer or existing customer upgrade,
- b) The new incremental costs which include:
 - the marginal increase in operating and maintenance costs
 - the marginal increase in overhead costs
 - the marginal increase in transmission costs (applicable to the electricity network only)
- c) The value of any deferral of renewal expenditure that results from the early replacement of existing assets due to customer work will be determined and accounted for in the analysis.
- d) The allocation of incremental upstream assets costs arising from the customer work.

New revenue will only be accounted for once over the life of the customer work, specifically:

- a) New revenue for subdivisions will be assigned to the development of the reticulation for the subdivision
- b) For commercial and industrial subdivisions, the new revenue estimated to be derived from the development will be assigned to the development of the reticulation for the subdivision.
- c) For commercial/industrial customers - If commercial/industrial load requirements subsequently exceed the capacity of the development, this will trigger a new customer work, with its own new revenue attributable to that work.

We charge a customer contribution which is the cost of the customer work and the cost of incremental upstream assets less Powerco's investment towards the job calculated above. The cost of the incremental upstream assets may include a proportional share (based on the size of the customer's load) of existing works, where that work was specifically carried out in anticipation of future customer connections.

Where the need for the customer work is shared among a number of customers, the customer contribution will be apportioned between those customers based on their projected annual consumption or load requirements⁷.

⁶ Our direct-to-customer engagement model took effect on 1 September 2025. If a Powerco-approved contractor submitted an application on your behalf to us for connection to our network, or for increased capacity, before our direct-to-customer engagement model took effect then we will follow the principles set out in our Capital Contributions Guide 2023 to determine whether you are required to pay a customer contribution towards the customer work and, if so, the amount of that contribution. Our Capital Contributions Guide 2023 is published on our website <https://www.powerco.co.nz/-/media/project/powerco/powerco-documents/who-we-are---pricing-and-disclosures/disclosures/electricity-disclosures/7-electricity-capital-contribution-guide/electricity-distribution-capital-contribution-guide.pdf>

⁷ We'll be introducing "pioneer schemes" to deal with first-mover disadvantage to be effective in late 2026 as recently announced by the Electricity Authority <https://www.ea.govt.nz/news/press-release/new-rules-unlock-network-connection-barriers-to-support-electrification/>

Standard prices

From 1 September 2025, the majority of simple and network-ready jobs have a standard price. This price and the contribution for those jobs are published on our website⁸.

We calculate standard prices as described in the section above but averaged across regions and networks. While causer-pays pricing is technically efficient, details such as when and where customers ask for new connections can result in extremely large cost differences. For this reason, we have simplified the connection process for smaller, routine jobs, including how much we charge for them.

Standard prices are the contributions we require for simple, small connections. Customers know how much it will cost to make or live on eligible connections before even applying to us.

Changing our model has also given us an opportunity to review and simplify our approach to how we process customer work requests in order to improve the customer experience through a simpler, faster, more efficient and lower cost process to the net service.

We will continue to add to, revise and update these standard prices better to meet customers' needs.

How do I know how much to pay?

Whether a job is eligible for standard pricing or needs to be individually priced is determined by Powerco's connection pathways, as mentioned in the section on our Customer work process.

For non-standard prices, customer work is undertaken by one of Powerco's primary, secondary or customer delivery contractors. The quote for the customer contribution for customer work is calculated as follows:

Contractor's price to Powerco for performing the customer work

Plus:	Powerco on-costs (equipment, staff time etc)
=	Total cost of customer work to Powerco
Less:	Powerco's investment to meet regulated targets
=	Quote for total customer contribution (for customer work)

Where we need to calculate an individual customer contribution for a project, our contractors provide us a quote for the work. Powerco on-costs including Powerco supplied equipment and staff, is added as a cost to obtain the total cost of the customer work.

The salvage value of major items of equipment (typically distribution transformers) that will be replaced as a result of capacity upgrades will be credited to the cost of the customer work.

Where Powerco has previously invested in the assets concerned, the proportion of the salvage value that represents Powerco's interest in the asset will not be credited to the cost of the customer work.

⁸ <https://www.powerco.co.nz/get-connected/electricity-for-home-and-business/electricity-connection-pricing>

The customer contribution to the customer work will be treated as pre-payment of uneconomic line charges. Currently, the customer will not be entitled to a refund of any portion of the contribution should any other party connect to that part of the Powerco network that was constructed for the first customer⁹.

Example of how the customer contribution is calculated

Contractor quote for work + Powerco on-costs	\$50,000
+ Incremental upstream assets required by new connection	\$10,165
+ Maintenance expenditure	\$1,675
= Total cost	\$61,840
- Present value of future revenue after costs (as detailed in section 2)	\$26,499
- Equipment salvage value	\$5,000
= Customer contribution	\$30,341

What if I have questions about the contribution?

If you have concerns or questions about the level of the contribution, please contact us. We will respond to your query within 10 working days and provide you with an explanation of how the contribution was determined. Contact details are:

General Enquires: generalenquiries@powerco.co.nz

ph. 0800 POWERCO (0800 769 372)

Large commercial and industrial customers who have a Powerco Account Manager can contact their Account Manager directly or email Commercial.Queries@powerco.co.nz.

⁹ The Electricity Authority will be introducing a standard process to deal with this “first mover disadvantage” problem for larger customers. We expect to implement these processes from 1 April 2026 through “pioneer schemes” as described in https://www.ea.govt.nz/documents/8011/Distribution_connection_pricing_methodologies_factsheet.pdf

Consistency with Electricity Authority pricing principles

Powerco considers the customer contribution policy is consistent with the Electricity Authority's pricing principles.

This section discusses the consistency between this policy and the Electricity Authority's pricing principles that are relevant to customer contributions¹⁰. The pricing principles were designed primarily for distribution pricing rather than customer contributions. As a result, some of the principles do not apply and are not discussed¹¹.

Electricity Authority pricing principles

(1) Prices are to signal the economic costs of service provision, including by:

- (a) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);

Prices are equal to or greater than avoidable costs

The term "avoidable cost" means the costs that can be avoided by not serving a customer or customer group. Examples of avoidable costs include customer service costs, connection cost specific to a customer or customer group and additional maintenance costs.

Two aspects of avoidable costs are relevant to a new connection:

1. Costs from additional assets required to connect a consumer to the network or expand capacity. Powerco's approach to customer contributions ensures these costs are recovered by the customer's contribution and their regular electricity charge.
2. Cost imposed on the existing network by additional load. This cost is often zero because the existing capacity of the network meets demand. The avoidable cost can be large if the next unit of electricity requires additional capacity.

Our policy requires the customer who initiates the need for the additional work to pay a share of the cost in proportion to capacity used. For example, if a customer's load growth triggers a capacity upgrade and their expected load is 20% of the upgraded capacity, they would be required to fund 20% of the cost of the upgrade, less the amount justified by the new income we expect to receive from their connection.

The application of this policy is dependent on the circumstances of the upgrade.

- **Residential load growth.** The policy is not applied to capacity upgrades triggered by residential customer load growth. This is because of the small incremental growth involved and the difficulty associated with identifying which sites have triggered the need for the upgrade. Standard tariff setting processes reflect the costs of these upgrades.
- **Expected future load.** Upgrade costs can reflect future load expectations if significant upgrades are required and attributable to the load. For example, for two customers connecting the first may not trigger an upgrade and the second might. The charge to the first customer will capture a share of the upgrade. To estimate this charge correctly, we may assess future load growth to calculate the level of

¹⁰ <https://www.ea.govt.nz/industry/distribution/distribution-pricing/>

¹¹ Powerco's Electricity Pricing Methodology incorporates a wider discussion of the pricing principles and can be located at: <http://www.powerco.co.nz/Publications/Pricing-Schedules/Electricity/>

upgrade work required to supply all the proposed loads. The upgrade costs for the new connections are then determined using this information.

Prices are less than or equal to stand-alone cost

Powerco's policy is that customers never pay more than the total costs of customer work. Customer contributions will therefore always be below the standalone cost. Therefore:

- reflecting the impacts of network use on economic costs;
- reflecting differences in network service provided to (or by) consumers;
- encouraging efficient network alternatives.

The first two principles require prices to reflect long run costs. Prices should be low when future investment is low and spare capacity exists (a and b). Prices should be high when capacity is constrained, and new investment is needed (c), [see section is there a non-network solution?](#)

Section [Customer contribution assessment principles](#) describes how customer contributions reflect the long-run costs of new investment.

(2) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

We consider this principle is not relevant to customer contributions.

(3) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

- (a) reflect the economic value of services; and
- (b) enable price/quality trade-offs.

Customers also have the ability to consider a variety of non-network solutions. This helps enable customers to make appropriate price quality trade-off decisions and ensure prices reflect the economic value of services provided. Published rates for standard connections, allow customers to easily compare options.

For non-standard customers, Powerco is able to offer a service more tailored to their requirements. Powerco consults with these customers via one-to-one liaison with key account managers, in accordance with the Electricity Authority's pricing principles. This works well, as large customers are usually familiar with the issues involved in price/quality trade-offs and strong relationships provide a firm foundation for discussing all aspects of quality and price.

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

Transparency

This capital contributions policy is published on Powerco's website.

Transaction costs

Powerco's policy of having standard contributions amounts for small and medium jobs is an example of how we seek to minimise transaction costs wherever feasible. By having a standard contribution amount for the vast majority of CIW jobs we minimise administration costs, provide consistency and certainty for the customer and retailers.

Powerco also regularly reviews our CIW process to ensure the process is as efficient as it can be to connect new customers and to investigate (and approve) network investments.

The customer contributions policy is applied consistently to all customers and across all retailers and as such we consider it is economically equivalent across retailers (as is Powerco's pricing methodology).

Regard to consumer impacts and uptake incentives

The impact on customers of changes to the allocation methodology is a central consideration in the pricing process. Powerco's approach to customer contributions has not changed materially over the last five years and this has helped provide certainty and stability. Powerco consults with retailers and other customers a number of times throughout the year to discuss all aspects of our pricing approach (including potential improvements). This provides a mechanism to enable customers to communicate any concerns they may have about the impact of prices on them. A description of this process is available on request from Powerco.

For non-standard customers, Powerco consults with customers via one-to-one liaison with key account managers. This provides a channel for discussions of all aspects of quality and price

Definitions

The following technical terms are used in this policy and defined below:

Capital contribution is the amount of money a customer must contribute to the Customer Work to enable the work to proceed.

Customer work means work to construct new assets that will form part of Powerco's network (and be owned by Powerco) and/or work to upgrade, alter or relocate existing Powerco assets for any of the following reasons:

- a) the connection of a new customer to Powerco's network
- b) the extension of Powerco's network into new subdivisions
- c) the upgrade of Powerco's network to meet the electrical capacity¹² needed for the purposes of (a) or (b), or to meet the electrical capacity needs of an existing customer where their load or capacity requirements have increased
- d) the relocation, alteration or removal of the existing Powerco network for an existing customer or a third party with an interest in the assets.

For upgrades to Powerco's existing electricity network, work that will form part of the Customer Work includes:

- a) all 400V network work
- b) distribution transformer work (including associated ancillary equipment, switchgear, fusing and enclosure) where the new load represents more than 10% of the capacity of the existing distribution transformer
- c) all distribution feeder work (including all associated distribution assets: overhead lines, switchgear, switches, auto-reclosers and sectionalisers, underground cables and associated ancillary equipment) where the new load represents more than 10% of the existing capacity of the feeder or part of the feeder being utilised or any item of the distribution assets
- d) all zone substation and sub-transmission work where the new load represents more than 10% of the capacity of the supply zone substation and the new load is greater than 2,000kVA anytime peak demand.

Customer contribution (see capital contribution)

Incremental upstream assets means the upgrade of distribution system assets upstream of a customer's connection point, required to meet the capacity or security requirements of the new additional load.

New revenue means additional revenue to Powerco as a result of a new customer connection and/or an upgrade to an existing customer's load resulting in new revenue.

Powerco's investment means the amount of money Powerco is willing to invest in the customer work. This is calculated based on the future forecast returns from the development.

Powerco supplied equipment means equipment supplied to the contractor for incorporation into the customer work. Powerco has a "Powerco Supplied Equipment for Customer Work" standard that provides more detail on this matter.

¹² Capacity upgrades may be for load or generation.

