

# THE POWER COMPANY LIMITED

## THRESHOLD COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE, 31 MARCH 2007

*Pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004  
and Amendment Notice 2006*

23 MAY 2007

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**1. DISCLOSURE OF INFORMATION REQUIRED  
(CLAUSE 7(1)(a)(i) - THE PRICE PATH THRESHOLD)**

The Power Company Limited (TPCL) does not comply with all requirements of the price path threshold at the 31 March 2007 assessment date as specified in the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006 (The Notice).

**Clause 5 (1) (a) *notional revenue at each assessment date.*** The Notional Revenue of a distribution business at each assessment date (calculated in accordance with the numerator of the left-hand side of the following expression) is not to exceed the Allowable Notional Revenue of the distribution business under the CPI-X price path at that assessment date (calculated in accordance with the denominator of the left-hand side of the following expression):

<b>Test:</b>	$\frac{NR_{2007}}{R_{2007}}$	$\leq 1$
<b>Result:</b>	\$23,858,704 / \$19,823,826	> 1
<b>Result:</b>	1.2035	> 1
<b>Result:</b>	Threshold is breached by	\$4,034,878

The Power Company Limited increased its line charges on 1 April 2005 and 1 April 2006. The price increases on 1 April 2006 are those in effect on the assessment date 31 March 2007. The price increases have resulted in breaches in excess of \$2,600,000 and \$4,000,000 in the 31 March 2006 and 31 March 2007 assessment dates.

The high level reasons for The Power Company Limited increasing its prices on 1 April 2005 and on 1 April 2006 which resulted the price path breaches are:

- The need to reinvest in the network assets in the long term interest of the stakeholders.
- The past levels of Return on Investment and prices were unsustainably low and could result in the revenue streams being insufficient to sustain the value of the network.

Supporting evidence is presented in Appendices A and B.

**Clause 5 (1) (b) notional revenue during each assessment period.** The notional revenue of a distribution business at any time during an assessment period is not to exceed the greater of the Allowable Notional Revenue of the distribution business at the assessment date on which that assessment period ends and the Allowable Notional Revenue of the distribution business at the previous assessment date under this clause (or, if the previous assessment date is the reference date, under clause 5 of the initial Notice).

<b>Test:</b>	$\frac{NR_{Max}}{Max(R_{2006}, R_{2007})} \leq 1$
<b>Result:</b>	\$23,858,704 / \$19,823,826 > 1
<b>Result:</b>	1.2035 > 1
<b>Result:</b>	Threshold is breached by \$4,034,878

Supporting evidence is presented in Appendix C.

Transpower interim rebates are excluded from the price path calculations as they have been passed back to retailers or end consumers in April 2007.

## **NOTIONAL REVENUE**

The following information used in determining the calculation of notional revenue of TPCL in accordance with The Notice is disclosed.

### **1. GOODS AND SERVICES:**

Goods and services included in the calculation of notional revenue of TPCL include charges to electricity retailers or customers for the conveyance of electricity services.

### **2. EXCLUDED SERVICES:**

The following are excluded services for the calculation of notional revenue:

- (a) Connection, disconnection, or reconnection services: TPCL obtains no revenue from these services as other parties perform them.
- (b) “Non conveyance” goods and services: TPCL obtains no revenue from the provision of energy use monitoring, consultancy or the provision of information not directly related to the provision of electricity distribution as it does not carry out such services.
- (c) Electricity meters: TPCL owns electricity meters and receives revenue from the provision of such meters. The revenue received is a market-based rental in a competitive market. The revenue is generated from equipment that is used for the measurement of usage of electricity and is non-conveyancing revenue.
- (d) Asset additions that are uneconomic to supply: TPCL is required to make additions to the network for newly connected customers. The cost of any uneconomic portion of the network addition is borne by the consumer. In all cases the costs of constructing the network addition for the new connection are incurred using independent contractors in a competitive market.
- (e) Other miscellaneous revenue: miscellaneous revenue such as rent, interest and gain on sale of assets are excluded, as they are non-conveyancing revenue.

### **3. PASS THROUGH COSTS**

The following costs have been included in the calculation of notional revenue:

#### **(a) TRANSMISSION CHARGES:**

These include Transpower Connection and Interconnection charges and embedded generator avoided transmission charges.

Loss Constraint Excess Payments have been passed through to the Electricity Retailers.

#### **(b) RATES:**

Territorial Local Authority rates applying to system fixed assets including lines, cables, equipment and substation land and buildings.

#### **(c) ELECTRICITY COMMISSION LEVIES.**

## 2. DISCLOSURE OF INFORMATION REQUIRED (CLAUSE 7(1)(a)(ii) – THE QUALITY THRESHOLD)

TPCL complies with all requirements of the quality threshold at the 31 March 2007 assessment date, as specified in The Notice.

### a. INTERRUPTION DURATION – SAIDI CLAUSE 6 (1) (a)

<b>TEST:</b>	$SAIDI_{2007} \leq \left( \frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$
	177.56 minutes < 240.28 minutes
<b>RESULT:</b>	Class B and Class C SAIDI for the twelve months ending on the Assessment Date, 31 March 2007 is less than the five year average Class B and Class C SAIDI (1999 – 2003) by 62.72 minutes.  The Threshold is not breached.

Supporting evidence is presented in Appendix D.

### b. INTERRUPTION FREQUENCY – SAIFI - CLAUSE 6 (1) (b)

<b>TEST:</b>	$SAIFI_{2007} \leq \left( \frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$
	3.02 times < 4.32 times
<b>RESULT:</b>	Class B and Class C SAIFI for the twelve months ending on the Assessment Date, 31 March 2007 is less than the five year average Class B and Class C SAIFI (1999 – 2003) by 1.30 times.  The Threshold is not breached.

Supporting evidence is presented in Appendix D.

### c. CUSTOMER COMMUNICATION - CLAUSE 6(1)(c)

In accordance with Clause 6(1)(c), consultation has continued with consumers on price and quality trade-offs in the period ended 31 March 2007, however as this was reported on in the 2006 compliance statement it is not intended to report on this until 2008.

### **3. DISCLOSURE OF INFORMATION REQUIRED (CLAUSE 7(1)(a)(iii) - POLICIES AND PROCEDURES FOR RECORDING SAIDI AND SAIFI)**

TPCL contracts PowerNet to manage its network via a Network Asset Management Agreement.

PowerNet has a number of ISO 9002 procedures that govern the operational processes that surround the interruption, restoration and quality of supply to its customers. These procedures document the process by which managing, recording and reporting of outages is performed by PowerNet. This is carried out by following a series of flow charts, documents, forms and instructions contained within the following procedures:

- PNM 65 – Planned Outages
- PNM 69 – Network Faults, Defects and Supply Complaints
- PNM 71 – Use of Operating Orders

Key items within these procedures that relate to the recording and reporting of SAIDI and SAIFI statistics include:

- Responsibilities for recording faults and outages at the system control operator level through to reviewing and reporting of faults and outages daily by management, weekly at operations meetings and monthly at board meetings.
- Methods by which notification of planned and unplanned outages are identified and captured from various sources such as customers, network equipment, contractors, Transpower, the public or emergency services.
- The use of Operating Orders for planned maintenance and unplanned fault restoration and how the information from these orders flow through to the Outage Reporting System in the form of duration of outages and number of customers affected.
- The recording of all faults and outages, however for the reporting of SAIDI and SAIFI only the inclusion of outages of a duration exceeding one minute or affecting more than three customers is recorded.
- The method of calculating SAIDI and SAIFI for outages which are progressively restored.
- The preparation, retention and archiving of supporting records and data.

#### *Disclaimer*

*The information presented in this Threshold Compliance Statement has been prepared solely for the purpose of complying with the requirements of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006. This statement has not been prepared for any other purpose and The Power Company Limited expressly disclaims any liability to any other party who may rely on this statement for any other purpose.*

**AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT**

To the readers of the threshold compliance statement of The Power Company Limited for the assessment period ended on 31 March 2007

We have examined the attached statement, which is a threshold compliance statement in respect of the price path threshold and the quality threshold prepared by The Power Company Limited for assessment as at 31 March 2007 and dated 23 May 2007 for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Lines Thresholds) Notice 2004 ("the Notice"). In this report the attached statement is called "the threshold compliance statement".

**Directors' Responsibilities**

Directors of The Power Company Limited are responsible for the certification, confirming the compliance or otherwise, of the threshold compliance statement in accordance with the Notice.

**Auditors' Responsibilities**

It is our responsibility to express an independent opinion (in the form prescribed in the Notice) on the threshold compliance statement and report our opinion to you.

We conducted our audit in accordance with the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand.

**Basis of Opinion - Price Path Threshold and Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2007**

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 2 to 6 and Appendices A to D of the threshold compliance statement and which relate to:

- the price path threshold set out in clause 5 of the Notice; and
- the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice.

It also included an assessment of the significant estimates and judgements, if any, made by The Power Company Limited in the preparation of the threshold compliance statement and an assessment of whether the basis of preparation has been adequately disclosed.

We planned and performed our audit of the threshold compliance statement so as to obtain all the information and explanation which we considered necessary, including for the purpose of obtaining sufficient evidence to give reasonable assurance that the threshold compliance statement is free from material misstatements (whether caused by fraud or error), except that our work was limited in respect of the quality threshold: SAIDI and SAIFI statistics as explained below. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the threshold compliance statement.

**AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT**

The Power Company Limited

**Basis of Opinion - Quality Threshold: SAIDI and SAIFI Statistics for the Years Ended 31 March 1999, 2000, 2001, 2002 and 2003.**

In relation to the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice. We have undertaken procedures to provide reasonable assurance that:

- the amounts and disclosures in the threshold compliance statement relating to those statistics have been correctly taken from the information disclosed by The Power Company Limited in accordance with the Electricity (Information Disclosure) Regulations 1999; and
- those statistics have been calculated based on the source data provided to us. We have not performed audit procedures on the source data.

**Relationship and Interests**

We have no relationship with or interests in The Power Company Limited other than in our capacities as auditors of the threshold compliance statements and in the provision of other professional advisory services. We are not aware of any relationships between our firm and The Power Company Limited that, in our professional judgment, may reasonably be thought to impair our independence.

**Opinions**

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

**Price Path Threshold**

In our opinion, having made all reasonable enquiry, to the best of our knowledge the amounts or details set out in the threshold compliance statement relating to the price path threshold set out in clause 5 of the Notice and related information have been prepared in accordance with the Notice, and give a true and fair view of the performance of The Power Company Limited against that threshold for the assessment period ended on 31 March 2007.

**Quality Threshold: SAIDI and SAIFI statistics**

In our opinion, having made all reasonable enquiry, to the best of our knowledge:

- a) the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice and related information have been calculated or prepared in accordance with The Power Company Limited's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and fairly represent the performance of The Power Company Limited for the assessment period ended on 31 March 2007;
- b) the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003, which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice, have been correctly taken from the information disclosed by The Power Company Limited in accordance with the Electricity (Information Disclosure) Regulations 1999. Those statistics have been properly calculated based on the unaudited source data provided to us by The Power Company Limited.

**AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT**  
The Power Company Limited

**Qualified Opinion**

Our opinion is qualified as follows:

**Quality Threshold: SAIDI and SAIFI statistics**

The scope of our audit was subject to the following limitations:

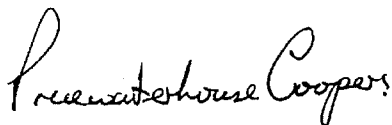
- There is no independent evidence available for the period to support the completeness and accuracy of recorded faults; and
- Control over the completeness and accuracy of ICP data included in the SAIDI and SAIFI calculations is limited throughout the period.

Because of these limitations, there are no practical audit procedures that we could adopt to confirm independently that all outage and ICP data was properly recorded for the purposes of inclusion in the amounts or details set out in the quality threshold: SAIDI and SAIFI statistics.

In these respects alone we have not obtained all the information and explanations that we have required.

Because of the potential effect of the limitations in the evidence available to us, we are unable to form an opinion as to whether the amounts or details set out in the quality threshold: SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007, together with the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003, give a true and fair view of the performance of The Power Company Limited against those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice for the assessment period ended on 31 March 2007.

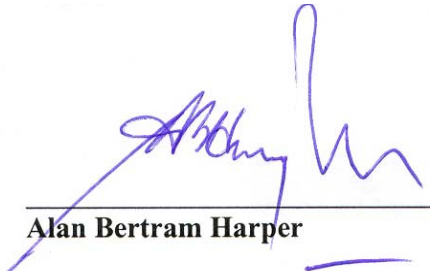
Our audit was completed on 23 May 2007 and our qualified and unqualified opinions are expressed as at that date.



PricewaterhouseCoopers  
Christchurch  
23 May 2007

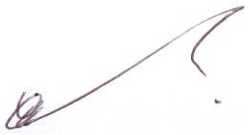
## 5. CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

We, Alan Bertram Harper and Cameron Andrew McCulloch, being Directors of The Power Company Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of The Power Company Limited and related information, prepared for the purposes of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006 complies with the requirements of that notice, except for Clauses 5(1)(a) and 5(1)(b).



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**Alan Bertram Harper**



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**Cameron Andrew McCulloch**

23 May 2007