

THE POWER COMPANY LIMITED

THRESHOLD COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE, 31 MARCH 2006

Pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004

25 MAY 2006

CONTENTS

- 1) Disclosure of Information Required (Clause 7(1)(a)(i) – The Price Path Threshold)
 - a) Notional revenue at each assessment date – (Clause 5(1)(a))
 - b) Notional revenue during each assessment period – (Clause 5(1)(b))
- 2) Disclosure of Information Required (Clause 7(1)(a)(ii) – The Quality Threshold)
 - a) Interruption duration – SAIDI (Clause 6(1)(a))
 - b) Interruption frequency – SAIFI (Clause 6(1)(b))
 - c) Customer communication – (Clause 6(1)(c))
- 3) Disclosure of Information Required (Clause 7(1)(a)(iii) – Policies and Procedures for Recording SAIDI and SAIFI)
- 4) Auditors’ Report on Threshold Compliance Statement (Clause 7(1)(b))
- 5) Certification of Threshold Compliance Statement (Clause 7(1)(c))

APPENDIX A	Notional revenue at the 31 March 2006 assessment date
APPENDIX B	Allowable notional revenue under the CPI-X price path at the 31 March 2006 assessment date
APPENDIX C	Maximum notional revenue during the assessment period
APPENDIX D	SAIDI and SAIFI statistics

**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 2006 assessment date as specified in the Commerce Act (Electricity Distribution Thresholds) Notice 2004 (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):

TEST:	$\frac{NR_{2006}}{R_{2006}}$	≤ 1
TEST:	$\frac{\$21,830,779}{\$19,178,441}$	< 1
RESULT:	1.1383	> 1
RESULT:	\$2,652,338	Threshold is breached

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 notional revenue of the distribution business at the assessment date on which that assessment period ends and the 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).

TEST:	$\frac{RMax_{01/04/05 - 31/03/06}}{Max(R_{2005}, NR_{2006})}$	≤ 1
TEST:	$\frac{\$21,830,779}{\$21,830,779}$	≤ 1
RESULT:	1.0000	$= 1$
RESULT:	NR is equal.	Threshold is not breached.

Supporting evidence is presented in Appendix C.

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.

Voltage, Frequency, and 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 2006 assessment date, as specified in The Notice.

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

TEST:	$SAIDI_{2006} \leq \left(\frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$
	158.34 minutes < 240.28 minutes
RESULT:	Class B and Class C SAIDI for the twelve months ending on the Assessment Date, 31 March 2006 is less than the five year average Class B and Class C SAIDI (1999 – 2003) by 81.94 minutes.
	The Threshold is not breached.

Supporting evidence is presented in Appendix D.

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

TEST:	$SAIFI_{2006} \leq \left(\frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$
	2.99 times < 4.32 times
RESULT:	Class B and Class C SAIFI for the twelve months ending on the Assessment Date, 31 March 2006 is less than the five year average Class B and Class C SAIFI (1999 – 2003) by 1.33 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), TPCL has consulted with its consumers on price and quality trade-offs in the period ended 31 March 2006.

INTRODUCTION

TPCL is required under The Notice to confirm its compliance or otherwise with the quality threshold including customer communication on price and quality trade-offs with respect to the goods and services provided by TPCL.

To enable TPCL to demonstrate its compliance or otherwise, TPCL needs to determine what price and quality mean, provide information specific to its customer characteristics and processes that are conducted in providing a service to its customers.

DEFINITION OF PRICE AND QUALITY

The Notice defines price to mean “a posted price in nominal terms (such as tariff, fee or charge) or a component thereof, that a lines business charges in relation to a specified service”.

The Notice does not define the more subjective term of quality other than by implying that quality relates to SAIDI and SAIFI due to these measures being the quality threshold assessment.

The Oxford Dictionary definition of quality (noun) is –

- “1. Degree of excellence, **relative nature** or kind of character.
2. Faculty, skill, **accomplishment, characteristic trait, mental or moral attribute**”

In the context of the lines business service being provided, the relevant parts of the definition include the accomplishment while taking into account the characteristic traits and relative nature of the network providing the service.

TPCL sees the quality of the provision of a lines business service as including such indicators as:

- ❑ SAIDI (the average annual duration of supply interruptions (outages) per customer connected to the network).
- ❑ SAIFI (the average annual number of outages per customer connected to the network).
- ❑ CAIDI (the average duration of the outages during a year).
- ❑ Voltage levels and stability meeting regulatory requirements or customer specific agreements.
- ❑ Choice of supply availability arising from tariff options selected.
- ❑ The service the customer receives in the event of an outage or supply issue.

To maintain or improve TPCL’s past accomplishments of these indicators is the key to the provision of the lines business service. TPCL is also driven by best relative practice of other similar networks. The expectations and requirements of customer groups and the characteristics of the network and geography in which the service is provided are also critical to the relative assessment of quality, e.g. rural, urban, remote, mountainous, coastal etc.

CUSTOMER GROUPS

TPCL recognises there are significantly different expectations and requirements as to the quality of service provided to its customers. There are significantly higher expectations on performance and dependency on supply by commercial customers than for instance residential customers. The degree of consultation or engagement with customers is also driven by the prior knowledge of customers’ requirements and the potential benefit to be gained by the customers and their interest in the communication. For example, from our experience, commercial customers and say, dairy farmers will be more interested in discussing supply

quality and price than groups of residential customers as the formers' businesses rely on a reliable source of electricity. Furthermore, these customers and staff are able to also act as representatives for the expectations and requirements of the wider residential group.

TPCL's level of communication with customers on price and quality is carried out on a continuing basis in the normal course of business, which includes both pre and post 1 April 2004 to 31 March 2006. The communication carried out recognises the differentiation in level of communication and service required for customers such as:

- residential and commercial
- industrial installations, warehouses, retail stores, hospitals through to sports clubs etc.

The differentiation extends to times of the day or year for the same customer, such as:

- a dairy factory or freezing works processing and not processing,
- irrigation in summer,
- dairy farms' milking times.

In addition communication with groups of customers, through customer focus meetings with large commercial customers and small commercial customers combined with residential customers has been carried out during the regulatory period.

BUSINESS PROCESSES

TPCL, Electricity Invercargill Limited (EIL), and the OtagoNet Joint Venture contract all their business processes including asset management and corporate services to PowerNet. PowerNet was established as a joint venture by EIL and TPCL. TPCL does not employ any staff and the Chief Executive of PowerNet reports directly to the Board of TPCL.

The processes and examples referred to in this statement are therefore the processes carried out by PowerNet on behalf of TPCL.

Routine customer communication processes carried out both inside and outside the regulatory period include:

CUSTOMER SURVEYS

PowerNet, through an external consultant, carries out regular Customer Satisfaction surveys as prescribed in an ISO 9002 procedure PNM 50 – Customer Satisfaction. The surveys are designed to determine the level of customer satisfaction of a contract or faults service and to ensure prompt and effective response to any customer dissatisfaction.

Action is taken by PowerNet to address any issues identified in the external consultant report which is considered at periodic review meetings. Formal complaints are handled in accordance with a further procedure PQS-45 Customer Complaints. Any corrective action required to be initiated as part of the Customer Satisfaction surveys is carried out in accordance with procedure PQS-40 Corrective Action.

The ongoing surveys sample customers who have recently been subject to various types of service and assess customer responses. The surveys focus predominantly on quality and levels of service with respect to new connections, tree trimming, system control call centre response and contractor service. The most recent surveys were conducted in March 2005 and November 2005.

The speed of response and efficiency of PowerNet's contractors in rectifying faults were found overall to be satisfactory. Action is taken to make improvements which are monitored with comparison to previous surveys.

The results of the surveys did not impact significantly on the Asset Management Plan.

PRICE QUALITY SURVEY

A customer telephone survey of 600 residential and small commercial customers in the EIL, TPCL and OtagoNet Joint Venture areas was conducted throughout February and March 2006.

Items covered in the survey included:

- The number and length of planned outages considered to be reasonable
- Advice and notice regarding planned outages
- Recent experience of unplanned outages
- Expectations of reasonable time for supply restoration following unplanned outages
- The change to an electricity bill which would compensate for either an increase or decrease of one outage per year
- Satisfaction with contact with PowerNet.

Customer responses were placed into urban and rural categories and expectations and responses were clearly influenced by past levels of service provided. The responses are being considered as part of the ongoing asset management planning process.

The survey bore out the relatively small impact that significant increases in maintenance costs (and therefore short term quality improvements) would have on a customer's bill (and therefore price). The views of customers and outcomes of such price quality consultation are undermined when compared with other factors such as:

- the impact on price a change in interest rates may have on allowable regulatory returns and
- the impact on price due to a decision by a distribution business to move away from earning suboptimal returns.

MEETINGS WITH CUSTOMERS

Meetings are held from time to time, mainly annually, with some individual commercial and industrial customers on their requirements with respect to continuity and security of supply, future requirements and the cost or price surrounding such areas. Individual customers include the hospital, large department stores, a dairy factory and freezing works.

Meetings are always held with commercial customers when they are investigating either new installations or additional load. These discussions cover price and reliability/quality. Recent discussions have been held with freezing works, a dairy factory, irrigators and industrial customers. These are key meetings with respect to price and quality, as it is often only at this stage when individual customers can exercise some choice over their future reliability and price levels. For instance, it is at this stage when new customers gain knowledge of the projected reliability levels and can make informed decisions on whether to invest more money in alternative supplies, for instance an (n-1) security, or whether the levels prescribed by the network policy are acceptable. At this stage customers can also choose to accept lesser standards of supply security or voltage if it does not affect other customers. Typical options can be one or two supply cables, automatic changeover to an alternative supply route or partial backup through a low voltage cable.

Another option discussed with these customers is the need for a continuous supply to the whole installation. In many cases, part of an installation can have its power interrupted for periods of time without impacting on the business. These options relate mainly to demand side management where customers have the option to reduce costs by switching off plant at specific times. These discussions are often ongoing and can be either direct or through the retailer.

Areas discussed also include interruptible heating or refrigeration loads and some industrial processes, for example, an induction furnace.

STATEMENT OF INTENT AND BUSINESS PLAN PROCESS

Consultation takes place between TPCL and its shareholder, the Southland Electric Power Supply Consumer Trust (SEPSCT) as required by the Constitution of TPCL. Consultation surrounds the finalisation of the Statement of Intent (“SOI”) and Business Plan for the following three-year period. Issues covered include the level of capital investment, achieving an appropriate return on investment, charging an appropriate price and providing an appropriate level of service to customers.

The SEPSCT through its publicly elected Trustees represent the shareholders and customers in the TPCL area. The customers of TPCL are represented through these elected Trustees who have the opportunity to establish policy and thus influence the objectives of the Directors of TPCL. These policies and objectives extend to key issues such as price and supply quality.

Price and quality issues approved in the SOI are incorporated into the Asset Management Plan, the SOI is available at http://www.powernet.co.nz/tpc/tpc_statement_of_corporate_int.html

At the Annual General Meeting of SEPSCT, the PowerNet Chief Executive gives a presentation to the attendees outlining the coming year’s Business Plan including the impact of its policies on price and quality on that plan. There is ample opportunity for feedback from the attendees. Attendance at these meetings is low which is interpreted as customers’ general approval of the policies and outcomes of TPCL affecting them.

The SOI and Key Performance Indicator results within TPCL’s annual report are made available to the public for their information. PowerNet willingly engages with customers with respect to the information provided in these reports and with respect to quality of supply on an ongoing basis.

USE OF SYSTEM AGREEMENT

Through PowerNet the Company has been negotiating Use of System Agreements with Energy Retailers active in the area. Significant discussion was involved in considering the views of the Energy Retailers, as representatives of the end use customers, through the process of negotiating and finalising the Use of System Agreements. The end result included the development of a Schedule of Performance Incentive Payments for failing to deliver a quality service.

The Incentive Payment Schedule requires PowerNet Limited to pay to the Retailer a specified amount in the event supply is not restored within a certain timeframe or planned interruptions are not notified in advance etc. Similar terms and conditions exist within individual agreements with large industrial consumers.

The requirements of the Use of System Agreements in relation to price and quality are taken into account in the Asset Management Plan as penalties can materially affect the business.

Ongoing negotiations are being held with incumbent Retailers regarding the development of a new Use of System Agreement based on the industry standard agreement.

PRICE AND QUALITY TARIFF OPTIONS AND TRADE OFFS

The existing tariff schedule which is publicly disclosed at http://www.powernet.co.nz/tpc/tpc_line_charges.html and advertised in the event of price changes gives all TPCL consumers a variety of tariff options which impact on the prices and quality of supply.

The tariff options include:

- ❑ the 10% fixed charge option:
This option is for residential customers whose consumption is below 8000kWh per annum. It features a low fixed charge and higher variable rate.
- ❑ the “cottage” option for smaller installations:
This option is available to all customers whose anytime demand does not exceed 32amps. The installation is controlled by a sealed but customer resettable 32-amp circuit breaker.
- ❑ a controlled tariff option (ripple control):
The controlled tariff option operates at a price below the uncontrolled tariff. Customers who elect to operate on this tariff may have their hot water cylinder controlled thereby lessening their supply quality due to having their hot water cylinder heating turned off for periods throughout the day. This enables TPCL to reduce network investment and incurred Transpower costs. Most of these tariffs have options with respect to operating times e.g. 20 hour or 16 hour minimum availability per day.
- ❑ a low night rate option for consumption between 11pm and 7am:
The charges offered for night rate for consumption by TPCL are substantially lower. The line charge variable night rate is zero cents per kWh. A reduced price can be achieved by customers by operating appliances such as water heaters, nightstore heating and clothes dryers between the hours of 11pm and 7am. A reduced price will result in a trade off in supply quality due to customers only being able to operate the appliances between those hours or alternatively paying a higher rate for daytime consumption compared to the 24 hr availability rate.
- ❑ the option to install a half hour meter to gain a diversity benefit from the residual or average profile:
All customers have the option of being charged on the basis of their profile as recorded by a half hour meter. This gives those customers an opportunity to reduce their own line charges by being able to be charged on the basis of their own individual profile instead of the load group average. A reduced price may result in a trade off in supply quality due to the limitations customers may place on their consumption patterns to achieve that saving.

All customers over a certain size are required to have half hour metering under the Electricity Commission rules.
- ❑ the annual tariff reset process for individual consumers designed to fit their projected annual consumption profile:
On 1st October each year TPCL reassesses the usage pattern or consumption profiles of the larger customers and approaches them with the respect to the impact of the present usage patterns on their prices. At this time customers and TPCL discuss the price and quality implications of their respective usage pattern providing the customers with an opportunity to vary their future usage patterns to achieve a better price.

CONSULTATION MEETINGS WITH CUSTOMER GROUPS

A series of meetings was held by PowerNet with various customer groups in Invercargill and in towns throughout the Southland and Otago regions. Where numbers of customers were sufficient, meetings were divided into large commercial customers and small commercial / residential customers to address the differing requirements of those two groups.

Invitations to attend the consultation meetings (including appropriate refreshments) were sent to customers by randomly selecting customers across various connection capacities. Generally the uptake was very poor with positive responses received from less than 5% of those invited and actual attendances dropping to between 2% - 3% of those invited. The knowledge of attendees and quality of questions, while generally not related to price and quality, was of a high standard.

The meetings included a power point presentation from the PowerNet Chief Executive which included background information on electricity distribution in the Southland and Otago areas and dealt specifically with issues surrounding price and quality. These included:

- undergrounding and overhead lines cost and reliability differences
- providing varying levels of network security (n-1, n-2 etc.) to allow switching to reduce the duration of outages
- the cost of service levels such as a 24 hour control room
- the cost of providing a local fault service to reduce the duration of outages

Questions were taken following the presentation on a variety of industry issues. Copies of the prior years Asset Management Plan were distributed to attendees seeking their feedback for consideration in the following years plan.

ASSET MANAGEMENT PLAN

The Asset Management Plan process carried out by TPCL results in the publishing of a final public Asset Management Plan. This plan is available on the PowerNet/ TPCL web page at http://www.powernet.co.nz/tpc/tpc_asset_management_plan.html.

During the process comment and input is sought from customers for consideration into the preparation of the plan. Most consultation to date has been with Trustees representing the customers, attendees at the SEPSCT annual meeting and attendees at the above consultation meetings.

As discussed above, larger commercial and industrial customers can also exercise options on the level of local security to their installations.

The ongoing Asset Management Plan process includes consultation with the retailers and customers prior to Board approval of the final document.

DEMONSTRATION OF CUSTOMER COMMUNICATION (CLAUSE 6(1)(C))

As required by clause 6(1)(c) of The Notice, during the period of two years ending 31 March 2006 a distribution business is to, at least once-

- (i) “properly **advise** its customers about the price-quality trade offs available to them in relation to the goods and services provided by the distribution business; and”
- (ii) “**consult** with its customers about the quality of goods and services that they require, with reference to the prices of those goods and services; and”
- (iii) “properly **consider** the views expressed by customers during and after that consultation; and”
- (iv) “adequately take these views into account when making its asset management decisions.” (or **action**)

TPCL has, during the period, carried out the following:

(i) ADVISE

- ❑ Through customer focus groups, customers were advised of quality and costs of providing that quality and how that impacts on cost and therefore price. In addition attendees were provided with the current Asset Management Plan with a view to providing comments and input into the new plan.
- ❑ Through meetings with existing or new customers who are advised on price/quality options on equipment quality, and n versus n-1 security of supply and costs/price associated.
- ❑ Provided quality, price and other information through the draft and final SOI to the shareholder.
- ❑ Informed retailers when negotiating Use of System Agreements of the relative network performance given specific characteristics of the network and geography.
- ❑ Advised price and quality tariff options by permanently publishing prices on the web and advertising price changes in the newspaper.
- ❑ Made the Asset Management Plan available for comment to the public. Generally comments and input into the plan are provided through individual customer consultation.

(ii) CONSULT

- ❑ Carried out price and quality surveys sampling 600 customers (across EIL, TPCL and the OtagoNet Joint Venture) on a variety of issues including discussing with the customer issues such as price, quality, and service and recognition of service provider.
- ❑ Carried out customer surveys for those customers recently affected by planned outages, unplanned outages and tree trimming with respect to contractor and system control services.
- ❑ Held annual meetings with individual customers on continuity, security of supply, future requirement and cost/price surrounding those areas.
- ❑ Consulted its shareholder as provided for in Energy Companies Act/Constitution on inputs/outputs of the Business Plan/SOI.
- ❑ Consulted with retailers on appropriate Performance Incentive Payments for failing to deliver quality service.
- ❑ Held meetings and had discussions with customers on best tariff options available given requirements.
- ❑ Consulted on price and quality through meetings with customer groups including seeking feedback on the Asset Management Plan.

(iii) CONSIDER

- ❑ Consider the results from the price and quality surveys including relativity to previous surveys and in making service improvement decisions in preparing the Asset Management Plan.
- ❑ Customers provided feedback on quality and price at focus groups. The main issue to consumers was quality – this will be considered in preparing the Asset Management Plan.
- ❑ At meetings with individual, new or existing customers, consider the desired quality requirements of customers and the likely impact on the network (Asset Management Plan).
- ❑ Views of shareholders are considered in the SOI/Business Plan process as required by the Constitution.
- ❑ Considered the retailer’s industry experience and views on Performance Incentive Payments.
- ❑ Considered customers’ requirements when recommending an appropriate tariff option.
- ❑ The views of retailers and customers, if any, as part of the consultation are considered in finalising the Asset Management Plan. Feedback is given to the parties who have participated in the process.

(iv) ACTION

- ❑ Customer views on quality and price supported the general direction of the Asset Management Plan and did not produce any information to change the approach or policies. These views were taken into account in providing an electricity distribution service.
- ❑ Customer views on service quality through regular surveys are noted and monitored relative to previous surveys. Appropriate action is taken to make service improvements where necessary.
- ❑ Include considerations from customer meetings in formulating the Asset Management Plan and in particular on load growth, future planning, quality and type of equipment required.
- ❑ Reflect the views of the shareholder if considered appropriate, in changes from the draft SOI/Business Plan to the final version approved by the Board of Directors. The SOI/Business Plan financial and quality targets are reflected in the Asset Management Plan.
- ❑ Prepare and execute a Use of System Agreement acceptable to both the distributor and retailer. Performance Incentive Payments have a material effect on the provision of service to consumers.
- ❑ Placed customers on new tariff option and take into account the impact of this on the Asset Management Plan (generally large customers only).
- ❑ Following completion of the Asset Management Plan the ongoing process of managing the network is to monitor the network performance and vary the Asset Management Plan if necessary.

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. 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 2006

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 2006 and dated 25 May 2006 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

Clause 7 of the Notice requires the Directors of The Power Company Limited to prepare certificates that confirm the compliance, or otherwise, of The Power Company Limited with the thresholds set out in clauses 4, 5 and 6 of that 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; Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2006; and Quality Threshold: Customer Communication

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 2 to 13 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;
- The SAIDI and SAIFI statistics for the assessment period ended on 31 March 2006 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 under the Companies Act 1993, 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 2006.

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 2006 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 2006;
- 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

Quality Threshold: Customer Communication

In our opinion, having made all reasonable enquiry, to the best of our knowledge the information set out in the threshold compliance statement relating to that part of the quality threshold that is set out in clause 6(1)(c) of the Notice has been prepared in accordance with the Notice, and gives a true and fair view of the performance of Aurora Energy Limited against that part of the quality threshold for the assessment period ended on 31 March 2006.

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:

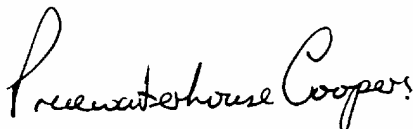
- There is no independent evidence available for the period to support the completeness and accuracy of recorded faults; and
- Control over the completeness and accuracy of ICP data included in the SAIDI and SAIFI calculations is limited throughout the period.

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 2006, 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 2006.

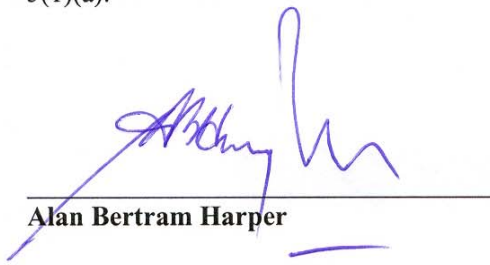
Our audit was completed on 25 May 2006 and our qualified and unqualified opinions are expressed as at that date.



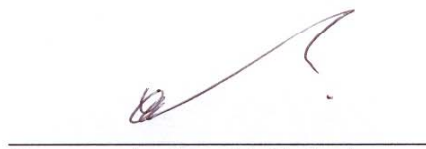
PricewaterhouseCoopers
Christchurch
25 May 2006

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 complies with the requirements of that notice, except in respect of Clause 5(1)(a).



Alan Bertram Harper



Cameron Andrew McCulloch

25 May 2006