

OTAGONET JOINT VENTURE

THRESHOLD COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE, 31 MARCH 2005

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

18 MAY 2005

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

OtagoNet Joint Venture complies with all requirements of the Commerce Act (Electricity Distribution Thresholds) Notice 2004, at the 31 March 2005 assessment date.

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:	$\frac{NR_{2005}}{R_{2005}}$	≤ 1
TEST:	$\frac{\$8,613,022}{\$8,629,958}$	< 1
RESULT:	0.9980	< 1
RESULT:	Threshold is not 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:	$\frac{RMax_{01/04/04 - 31/03/05}}{Max(R_{2004}, NR_{2005})}$	≤ 1
TEST:	$\frac{\$8,613,022}{\$8,613,022}$	≤ 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 OtagoNet Joint Venture in accordance with the Commerce Act (Electricity Distribution Thresholds) Notice 2004 is disclosed.

1. GOODS AND SERVICES:

Goods and services included in the calculation of notional revenue of OtagoNet Joint Venture 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: OtagoNet Joint Venture obtains no revenue from these services as other parties perform them.
- (b) “Non conveyance” goods and services: OtagoNet Joint Venture 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) Asset additions that are uneconomic to supply: OtagoNet Joint Venture 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.
- (d) 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 embedded generator avoided transmission charges, Transpower Connection, Interconnection, Voltage and Frequency charges less Loss Constraint Excess Payments.

(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)

OtagoNet Joint Venture complies with all requirements of the quality threshold at the 31 March 2005 assessment date, as specified in the Commerce Act (Electricity Distribution Thresholds) Notice 2004.

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

TEST:
$$SAIDI_{2005} \leq \left(\frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$$

173.80 minutes < 249.30 minutes

RESULT: Class B and Class C SAIDI for the twelve months ending on the Assessment Date, 31 March 2005 is less than the five year average Class B and Class C SAIDI (1999 – 2003) by 75.50 minutes.

The Threshold is not breached.

Supporting evidence is presented in Appendix D.

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

TEST:	$SAIFI_{2005} \leq \left(\frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$
	1.72 times \leq 2.38 times
RESULT:	Class B and Class C SAIFI for the twelve months ending on the Assessment Date, 31 March 2005 is less than the five year average Class B and Class C SAIFI (1999 – 2003) by 0.66 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), OtagoNet Joint Venture will consult with its consumers on price and quality trade-offs prior to 31 March 2006.

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

OtagoNet Joint Venture contracts PowerNet Limited to manage its network via an Outsourcing 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:

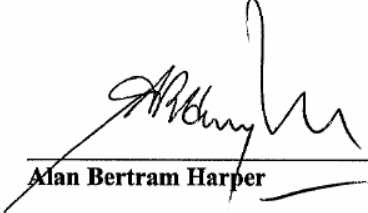
- Responsibilities for recording faults and outages at the system control operator level through to reviewing and reporting of faults and outages daily by management, weekly at operations meetings and monthly at board meetings.
- Methods by which notification of planned and unplanned outages are identified 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 OtagoNet Joint Venture expressly disclaims any liability to any other party who may rely on this statement for any other purpose.

5. CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

We, Alan Bertram Harper and Neil Douglas Boniface, being Directors of companies which are parties to the OtagoNet Joint Venture certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of OtagoNet Joint Venture and related information, prepared for the purposes of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 complies with the requirements of that notice.



Alan Bertram Harper



Neil Douglas Boniface

18 May 2005

AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT

To the readers of the threshold compliance statement of OtagoNet Joint Venture for the assessment period ended on 31 March 2005.

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 OtagoNet Joint Venture for assessment as at 31 March 2005 and dated 19 May 2005 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 OtagoNet Joint Venture to prepare certificates that confirm the compliance, or otherwise, of OtagoNet Joint Venture 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 2005.

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;
- The SAIDI and SAIFI statistics for the assessment period ended on 31 March 2005 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 OtagoNet Joint Venture 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.

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 OtagoNet Joint Venture 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 OtagoNet Joint Venture 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 OtagoNet Joint Venture 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 OtagoNet Joint Venture against that threshold for the assessment period ended on 31 March 2005.

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 2005 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 OtagoNet Joint Venture's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and fairly represent the performance of OtagoNet Joint Venture for the assessment period ended on 31 March 2005;
- 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 OtagoNet Joint Venture 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 OtagoNet Joint Venture.

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 2005, 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 OtagoNet Joint Venture 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 2005.

Our audit was completed on 19 May 2005 and our qualified and unqualified opinions are expressed as at that date.



PricewaterhouseCoopers
Christchurch
19 May 2005