



## CHIEF EXECUTIVE'S REPORT

Mike Underhill [Chief Executive Since 1999]

### Meeting the Growth

Waikato is experiencing strong economic growth and we are excited by the challenge of ensuring our electrical network develops so that it has the capacity and the reliability to meet the expectations of the region.

A new point of supply has been agreed with Transpower at the Huntly Power Station and this is due for completion mid 2007.

On our own network, we have new zone substations nearing completion at Ngaruawahia and at Tasman Road. These will be the first of six new zone substations over the next three years.

The growth in Raglan is being met by a new 33kV cable from the Te Uku substation to Raglan. This cable is currently being run at 11kV to provide immediate support to Raglan and will then supply a new zone substation in Raglan. The growth in north Waikato is being met in part by a new transformer being installed at our Finlayson Road substation. We are also experiencing strong growth in the industrial area in the north west of the city and have completed a major upgrade of our zone substation in Avalon Drive.

This growth has seen record spending on the network. We spent \$30 million on network capital works last year.

### Maximum Demand

The impact of growth can be seen in our 4% increase in energy volumes and a 15% increase in our maximum demand last year. This in turn resulted in unbudgeted increases in Transpower costs.

### Costs and Efficiency

Our operating costs are dominated by labour and material costs. Both of these areas have risen significantly in the last year and unfortunately, despite our best endeavours, the trend is likely to continue.

Our sector has faced major skill shortages in each of our specialised areas of electricity supply, ranging from line mechanics through to asset investment engineers.

### Reliability

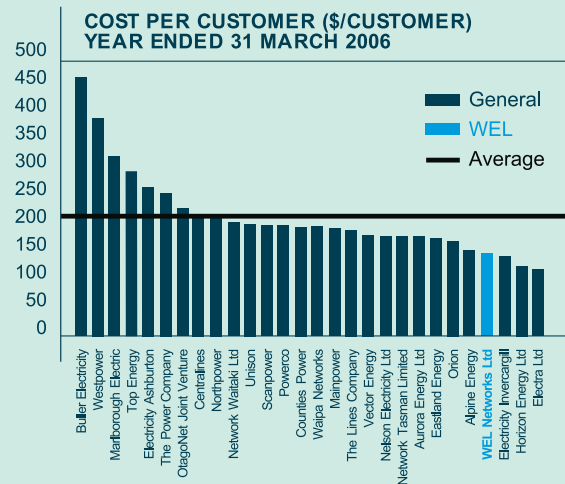
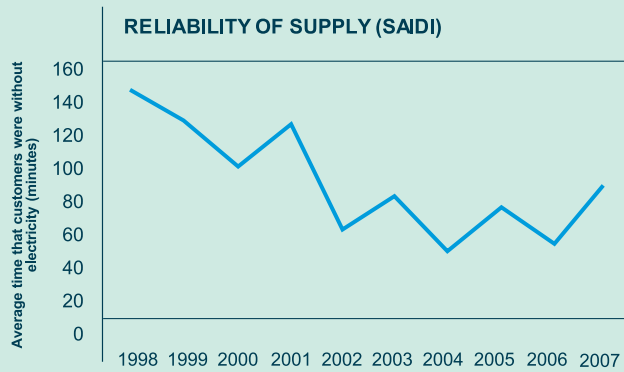
In spite of major investment in improving security of supply, we had a relatively disappointing year for reliability. Our reliability results were significantly affected by two short sharp storms, one of which accounted for 25% of our target in one day.

We are experiencing increasingly volatile weather which is impacting on reliability.

### Regulatory Compliance

I am pleased to report that once again, WEL has not breached its Commerce Act threshold for either quality of supply or pricing.





## Field Services

Last May we brought maintenance, faults and routine capital works functions “in-house” after having previously contracted these out. This work has now been handled by WEL for almost a year and we have seen real benefits particularly in terms of retaining appropriate levels of competent staff to successfully undertake our fieldwork. My thanks to all involved in this challenging project.

## New Location

With the recent addition of the field services and distribution centre teams, WEL has decided to move from the three sites that we currently occupy into one purpose built location in order to achieve improved operational synergies. A site has been selected and plans are progressing on the new buildings. WEL House in downtown Hamilton will be sold.

## Improved Operational Systems

The last year has seen us introduce a major asset management software system. This system is designed to improve our performance in relation to asset maintenance and management. Additionally, we have replaced our financial system and our company website. These systems are now performing well.

## Winners of the 2006 ESITO Line Mechanics Competition

The WEL Networks team of Richard Loynes, Justin Sonnenberg, Marcus Fletcher, Matt Atkins and Bill Woods (manager) took out the top honour at the 2006 ESITO Line Mechanics Competition which was held at Mystery Creek. The competition ran over three days with events ranging from pole top rescue to line construction. Competition was tough with 11 teams vying for the top spot. I would like to congratulate the team on an excellent result and on the very high quality of work that they displayed.

## Thanks

This report completes my eighth year as Chief Executive. I look back on a period of record capital expenditure to improve security of supply and to meet the strong growth in the Waikato; many initiatives to improve efficiency and a move into wind and other renewable generation.

WEL succeeds because it has a very good team and it has been my privilege to be part of that team – my thanks to management and staff.

Finally, I would like to thank the Board, and in particular the two very able Chairmen Sir Dryden Spring and Rodger Fisher, that I served under.

