

THRESHOLD COMPLIANCE STATEMENT

FOR THE SECOND ASSESSMENT DATE, 31 MARCH 2004

Pursuant to the Commerce Act (Electricity Lines Thresholds)

Notice 2003

18 May 2004

Contents

- 1) Disclosure of Information Required (Clause 7(1)(a)(i) – The Price Path Threshold)
- 2) Disclosure of Information Required (Clause 7(1)(a)(ii) – The Quality Threshold)
- 3) Auditor’s Report on the Threshold Compliance Statement (Clause 7(1)(b))
- 4) Certification of the Threshold Compliance Statement (Clause 7(1)(c))

APPENDIX A – Notional revenue at the third reference date

APPENDIX B – Notional revenue at the first assessment date

APPENDIX C – SAIDI and SAIFI Statistics

APPENDIX D – Customer Survey Questions

1. Disclosure of Information Required (Clause 7(1)(a)(i) – The Price Path Threshold)

WEL Networks Limited does not comply with all requirements of the price path threshold at the second assessment date, as specified in the Commerce Act (Electricity Lines Thresholds) Notice 2003.

Clause 5 (1) (c) Notional Revenue from the First Assessment Date (6 September 2003) to the Second Assessment Date (31 March 2004).

Test: $\sum P_{i2004} Q_{i0} - C_{T2004} - C_{R2004} \leq \sum P_{i0} Q_{i0} - C_{T2003} - C_{R2003}$

$[55,179,226 - 9,995,459 - 257,628] > [55,179,226 - 11,153,324 - 267,000]$

Result: Revenue at Third Reference date is greater than revenue at First Assessment date by \$1,167,237. Threshold is breached.

Supporting evidence is presented in Appendices A and B.

(Note: C_{T2003} and C_{R2003} are the budgeted rather than actual costs)

Readers will note that WEL has breached the above threshold. WEL considers this to be a technical breach for the following reasons:

- The sole cause of the breach was WEL's transmission charges being less than budget.
- WEL's notional revenue as at 31 March 2004 is lower than at any other stage during the regulatory review period.

- WEL has posted a price reduction immediately after the review period that is significantly larger than the amount of the breach.

WEL believes that by reducing its actual notional revenue for the year ending 31 March 2004 compared to the actual notional revenue for the year ended 31 March 2003, it has complied with the intent of the threshold regime. As such it should not be penalised for applying good corporate management and reducing its expenditure levels.

Notional Revenue:

In accordance with the Gazette Notice, the following sources of revenue have been included in the calculation of notional revenue:

- Fixed Charges from both “time of use customers” (TOU) and residential customers (RC)
- Consumption based (ie., kWh) charges from TOU, RC, and street lights
- Demand based (ie., kW) charges from TOU
- Reactive charges (ie., kVARh) from TOU

Excluded Services:

In accordance with the Gazette Notice the following sources of revenue have been excluded from the calculation of notional revenue:

Non-conveyancing Revenue In accordance with the definition of specified services as per the Commerce Act (Electricity Lines Thresholds) notice 2003 Gazetted 6 June 2003

- Interest

- Rent
- Gain on sale of assets
- Contributions by consumers for uneconomic assets
- Construction/maintenance of assets owned and operated by third parties e.g. streetlights owned by local authorities
- Call centre services to owners of other networks.

Pass Through Costs:

In accordance with the Gazette Notice, the following components of transmission charges have been included in pass through costs:

- Connection charges
- Interconnection charges
- Frequency charges
- Voltage support charges
- New investment charges
- EVA adjustments
- Loss Rental Rebates excluding the proportion passed on directly to retailers (currently 60%)

Local body rates applying to system fixed assets: lines, cables, equipment, substation land and substation buildings, have also been passed through in accordance with the Gazette Notice.

2. Disclosure of Information Required (Clause 7(1)(a)(ii) – The Quality Threshold)

WEL Networks Limited complies with all requirements of the quality threshold at the second assessment date, as specified in the Commerce Act (Electricity Lines Thresholds) Notice 2003.

Clause 6 (1) (a) Interruption Duration

$$\text{Test: } SAIDI_{2004} \leq \left(\frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$$

$$66.04 < 109.92$$

Result: Class B and Class C SAIDI for the twelve months ending on the Second Assessment date is less than the five year average Class B and Class C SAIDI (1999 – 2003) by 43.88 minutes. Threshold is not breached.

Supporting evidence is presented in Appendix C.

Clause 6 (1) (b) Interruption Frequency

$$\text{Test: } SAIFI_{2004} \leq \left(\frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$$

$$1.62 < 2.04$$

Result: Class B and Class C SAIFI for the twelve months ending on the Second Assessment date is less than the five year average Class B and Class C SAIFI (1999 – 2003) by 0.42. Threshold is not breached.

Supporting evidence is presented in Appendix C.

Clause 6 (1) (e) Customer Communication

Test – from Publication Date (6 June 2003) to Second Assessment Date (31 March 2004):

- i) to properly advise (or ensure that another person properly advises on its behalf) its customers about the price-quality trade offs available to them in relation to the goods and services provided by the lines businesses; and
- ii) to consult (or ensure that another person consults on its behalf) 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) to properly consider the views expressed by customers during and after that consultation; and
- iv) to adequately take these views into account when making its asset management decisions.

Definition of Quality

WEL defines quality as providing a network that is safe, reliable and fit for purpose.

Quality is measured by:

Safety:

- Restricted access to dangerous equipment
- Contractors using safe work practices
- Adequate protection system

Reliability:

- System Average Interruption Duration Index (SAIDI)
- Maximum outage duration for each outage
- Security (level of backup / redundancy)

Fit for Purpose:

- Voltage levels

Price Policy

WEL's policy is to price so as to be able to meet the cost (including cost of capital) of achieving the required service level.

Threshold Review Period

While WEL acknowledges the specific time frame defined in the regulations WEL takes a long term view of its business and incorporates consumer engagement outcomes that occur outside the review period into its asset management planning. As a consequence WEL has referred to actions taken outside the review period to fully demonstrate compliance with the regulations.

Customer Engagement

WEL has undertaken the following business processes to comply with 6(1)(e):

- Customer Surveys
- Customer Promise Programme
- Engagement with the WEL Trust
- Negotiation with large customers
- Tariffs options

Customer survey

In February 2003 WEL undertook a customer survey. The purpose of this survey was to understand:

- How customers currently perceived their reliability of supply

- What customers requirements were for future reliability of supply
- Whether customers were prepared to pay more for higher performance or less for lower performance

The survey was completed by phone by an independent market research company. A statistically significant sample size was obtained across the following six customer groups:

- CBD
- Industrial / Manufacturing
- Urban Commercial
- Urban Residential
- Rural, Dairy and Lifestyle
- Remote Rural

Overall the survey results are statistically reliable to within a margin of error of plus or minus 5%.

Key results from the survey were as follows:

- When asked a general question about the level of reliability they receive 97% of customers rate WEL's current reliability as acceptable or more than acceptable
- When asked a general question about whether they would be prepared to pay more for increased reliability 86% of customers are satisfied or more than satisfied with the current level of reliability for the price they pay
- Only 29% of customers think reliability could be improved.

A list of the survey questions is attached at Appendix D.

Each customer was asked what they considered to be an acceptable number of outages during a year and also what they considered an acceptable duration for each outage. Using this CAIFI information and extrapolating it over the network we are able to determine that an overall SAIDI of 57 minutes per year is acceptable to customers within WEL.

This result is a higher level of reliability than customers are currently experiencing and is somewhat inconsistent with the general responses noted above. WEL has considered this to mean that increased reliability is required but that the need is not urgent. Accordingly WEL has developed a glide path to reduce SAIDI to 46 minutes by 2008 (refer page 32 of the 30 June 2003 Asset Management Plan (AMP)¹). Increased reliability will be achieved without the need for increased prices through continued emphasis on maintenance best practice initiatives. This conclusion is consistent with views of the WEL Energy Trust. This is discussed further below.

Customer Promise

As an indication of WEL's commitment to minimising long outages we have introduced our customer promise programme. The customer promise programme guarantees to pay consumers if they experience outages of over three hours in urban areas or over six hours in rural areas (with some exceptions for uncontrollable events).

WEL makes payments in the event of these outages automatically to end consumers without the need for them to apply for the compensation directly. A letter is sent to each customer who has experienced an outage to explain the price and quality payment. The program was initiated with brochures sent to all customers, making the brochure publicly available on WEL's website² and advertised on local radio. This brochure provides quality and price information with the programme providing a direct price and quality trade-off.

Payments from the programme, which commenced 1 March 2003 have been \$19,815. The level of these payments provide support for our current asset management strategy (refer page 32 of the 30 June 2003 AMP¹).

Engagement with the WEL Trust

¹ Refer http://www.wel.co.nz/dis_assets.html

² Refer http://www.wel.co.nz/documents/wel_promise_brochure.pdf

The Trust is provided with a draft Strategic Direction document (similar to a Statement of Corporate Intent) on an annual basis along with a supporting presentation. The Strategic Direction and supporting document outlines the key financial, price and strategic targets.

In addition to the annual briefing WEL provides further financial, price and quality information to the Trust in a monthly report on key issues, a formal presentation on a semi-annual basis and the Trust's Annual Plan.

The views of the Trust are considered at each of the above meetings. Evidence of this is formal approval of the Strategic Direction document.

The quality targets in the Strategic Direction document are linked into the AMP (refer page 32 of the 30 June 2003 AMP¹) along with the projected expenditures to achieve these targets. The AMP is our primary tool for the implementation of our asset management planning strategy.

Negotiation with large customers

When a large customer wishes to connect to the network, or if an existing large customer significantly changes its operations, a site visit is made. At this visit the needs of the customer are determined and a range of options are presented for satisfaction of those needs i.e. varying levels of quality are offered for varying prices. Once an agreed option is selected a contract is entered into to undertake the required system augmentation for the agreed price.

Tariff Options

Price and associated quality options are posted on website³. Domestic and small commercial customers have the option of selecting interruptible load (i.e. reduced quality through reduced reliability) at a tariff that is 87% lower than the full quality continuous tariff. Major customers have a more complex tariff structure that allows them to self manage the price they pay for line services by regulating their demand.

³ Refer http://www.wel.co.nz/dis_charges.html

WEL has reviewed its tariff structure in consultation with retailers. As a result of that consultation no changes were made. Any changes to the level of a tariff are discussed with retailers prior to posting. WEL has posted a significant tariff decrease on 1 April 2004 however prior to this the last change was a rebalancing of tariffs in May 2001.

Conclusion

Based on the information provided in this statement, summarised in the compliance matrix below WEL has demonstrated it has programmes in place to meet the requirements of the regulations and has therefore complied with section 6(1)(e).

Compliance Matrix

Process	6 (1) (e) (i) Advise	6 (1) (e) (ii) Consult	6 (1) (e) (iii) Consider Views	6 (1) (e) (iv) Action
Customer Surveys	Provides consumers with the opportunity to consider price and quality trade offs	Telephone survey conducted across customer groups	<p>Obtained customers' desired reliability for price levels</p> <p>Recorded and summarised customers' views.</p> <p>Views incorporated into Strategic Direction document and 30 June 2003 AMP¹ – refer page 8.</p>	<p>Work plan implemented to achieve customer required reliability levels – refer 30 June 2003 AMP¹ page 3.</p> <p>No change to price given current satisfaction levels.</p>

Process	6 (1) (e) (i) Advise	6 (1) (e) (ii) Consult	6 (1) (e) (iii) Consider Views	6 (1) (e) (iv) Action
Customer Promise	Brochure sent to all customers. Radio and press advertising Brochure available on WEL website ²	Letter sent to all consumers with outage explaining compensation for reduced quality	Extent of payments made have been analysed.	Payments made for outages greater than specified levels Current low level of payments provide support for current asset management strategy
Review by WEL Energy Trust (owners)	Strategic Direction document, Annual Plan, and other presentations contain financial, pricing and quality information	Formal meetings with Trust	Feedback on desired revenue levels and reliability targets incorporated into Strategic Direction document	Formal sign off of Strategic Direction Document and linked into AMP
Negotiation with major customers	Price and quality options provided through connection options	Site visit to advise on quality (e.g. voltage levels) and price options	Feed back from site visit Contract signed agreeing on price/quality	System augmented to achieve agreed quality for agreed price

Process	6 (1) (e) (i) Advise	6 (1) (e) (ii) Consult	6 (1) (e) (iii) Consider Views	6 (1) (e) (iv) Action
Tariff setting	<ul style="list-style-type: none"> • Published on website • Advertises in local papers <p>Each of the above explains the tariff available for different levels of quality</p>	Consultation with retailers on price structure for varying quality options	Formal agreements reached on tariff structure and discount policy (Use of System agreements)	Tariff structure remained unchanged during period under review due to satisfaction with current structure.

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 Lines Thresholds) Notice 2003. This statement has not been prepared for any other purpose and WEL Networks Limited expressly disclaims any liability to any other party who may rely on this statement for any other purpose.

4. Certification of Threshold Compliance Statement

We, Sir Dryden Thomas Spring and Rodger Herbert Fisher being directors of WEL Networks limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of WEL Networks, and related information, prepared for the purposes of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the requirements of that notice.

Sir Dryden Thomas Spring

Rodger Herbert Fisher

18 May 2004

Appendix A

Notional Revenue at the Third Reference Date

Maximum Revenue Third Reference Date (6 September 2003 – 31 March 2004)	Transmission Charges 2004 (year ended 31 March 2004)	Rates 2004 (year ended March 2004)	Maximum Notional Revenue Third Reference Date (6 September 2003 – 31 March 2004)
$\Sigma P_{i2004} Q_{i0}$	C_{T2004}	C_{R2004}	$\Sigma P_{i2004} Q_{i0} - C_{T2004} - C_{R2004}$
55,179,226	9,995,459	257,628	44,926,139

Appendix B

Notional Revenue at the First Assessment Date

Revenue First Assessment Date (6 September 2003)	Budgeted Transmission Charges for year ended 31/03/2004	Budgeted Rates for year ended 31/03/2004	Notional Revenue at First Assessment Date (6 September 2003)
$\Sigma P_{i0} Q_{i0}$	C_{T2003}	C_{R2003}	$\Sigma P_{i0} Q_{i0} - C_{T2003} - C_{R2003}$
55,179,226	11,153,324	267,000	43,758,902

Notional revenue (excluding pass through costs)

Tariff or Fee	Description	Number of ICPs at 31/03/03	kWh or kw or kvarh	Distribution Charges		Notional Distribution Revenue (\$)		Notional Other Revenue (\$)	Total Revenue (\$)
				Fixed \$/day	Variable (c/kWh) or (c/kw)	Fixed	Variable		
Residential+small commercial customers									
resid+small comm	fixed charge	72,670		0.0991		2,628,583			2,628,583
resid+small comm	continuous usage		446,192,774		8.2		36,587,807		36,587,807
resid+small comm	controlled usage		142,734,227		1.04		1,484,436		1,484,436
TOU customers									
33kv	fixed	4		1.6083		2,348			2,348
33kv	continuous usage		33,323,017		1.22		406,541		406,541
33kv	peak demand charge (winter)		28,572		460		131,433		131,433
33kv	peak demand charge (summer)		45,936		360		165,370		165,370
11kv	fixed	160		1.6083		93,926			93,926
11kv	continuous usage		225,841,960		1.54		3,477,966		3,477,966
11kv	peak demand charge (winter)		257,406		675		1,737,490		1,737,490
11kv	peak demand charge (summer)		380,854		570		2,170,868		2,170,868
400v	fixed	204		1.6083		119,756			119,756
400v	continuous usage		74,131,487		2.17		1,608,653		1,608,653
400v	peak demand charge (winter)		93,010		785		730,129		730,129
400v	peak demand charge (summer)		130,442		670		873,964		873,964
400v D Comm	fixed	203		1.6083		119,169			119,169
400v D Comm	continuous usage		31,010,566		2.57		796,972		796,972
400v D Comm	peak demand charge (winter)		48,969		785		384,405		384,405
400v D Comm	peak demand charge (summer)		62,524		670		418,912		418,912
All TOU sub-groups	reactive charge		32,512,956		2.15		699,029		699,029
Street Light									
Street Light			8,130,151		6.66		541,468		541,468
$\Sigma P_{i0} Q_{i0}$									55,179,226

Appendix C

SAIDI and SAIFI (Class B and Class C) for Years Ended 31 March 1999 – 2004

Year	SAIDI (Interruption Duration)			SAIFI (Interruption Frequency)		
	Class B	Class C	Total	Class B	Class C	Total
1999	5.05	132.27	137.32	0.05	1.84	1.89
2000	4.35	106.83	111.18	0.06	2.31	2.37
2001	4.55	126.56	131.11	0.05	2.57	2.62
2002	4.57	71.64	76.21	0.04	1.45	1.49
2003	1.67	92.11	93.78	0.03	1.78	1.81
	Five Year Average SAIDI		109.92	Five Year Average SAIFI		2.04
2004	1.51	64.53	66.04	0.03	1.59	1.62

Appendix D

Customer Survey Questions – February 2003

Survey Instrument – Customer Preference Survey

CBD/URBAN

RESIDENTIAL/RURAL/REMOTE RURAL

Survey to target people >18 years old who pay the power bill. Sample to be random sample representing the sample groups as defined in Section 2.0. Data collection team to read words in blue to respondents. Words in black not to be read out aloud but will act as a category within which to class the response.

WEL Networks, your local electricity lines company is doing a 5 minute survey on customers to find out how you feel about the reliability of the electricity supply and what your future needs and expectations are, in terms of the electricity supply. Do you have a spare couple of minutes to participate in the survey? Your participation will put you in the draw to receive one of four \$50 petrol vouchers from Shell.

1. When was the last time your power went off?

Can't remember days ago weeks ago months ago years ago

2. How would you rate your current power supply in terms of reliability:

More than Acceptable Acceptable Unacceptable Totally Unacceptable

3. Do you feel that the power supply in terms of reliability over the past few years has:

Improved Stayed the same Got worse

4. Would you like to see further improvement in the reliability of the power supply? (i.e less power cuts)

Yes No It depends Don't Know

5. Would you be prepared to pay more for an improved power supply?

Yes No It depends Don't know

5A. If Yes - What would you expect for this extra money?

–

5B. If no – How would you feel about maintaining your current level of reliability for the current prices?

Totally unsatisfied Unsatisfied Satisfied Totally satisfied

6. If you had to choose, would you rather have fewer power cuts lasting a longer time or more power cuts each lasting a shorter time?

Fewer for longer time More for shorter time None at all

6A. When an outage occurs what do you feel is a reasonable time to be without power?

<30 mins 30 to 45mins 45 to 60 mins 60 to 90 mins 90 to 180 mins 180+

6B. How many times per year do you think it is acceptable for your power to go off?

0 1 2 3-5 5-10 10+

7. Have you ever experienced very short power cuts (of less than 1 minute)?

Yes No Don't know

7A. If yes – would you say these short interruptions are:

No problem A slight inconvenience An inconvenience A major inconvenience

8. If you could tell WEL Networks one thing about how they could improve their service, what would it be?

9. Where do you live?

(address) _____

—

10. Name and phone number if you wish to go into the draw.

Business Customers Preference Survey

INDUSTRIAL/MANUFACTURING/URBAN

COMMERCIAL

Survey to target people operations or general managers. Sample to be random sample representing the sample groups as defined in Section 2.0. Data collection team to read words in blue to respondents. Words in black not to be read out aloud but will act as a category within which to class the response.

WEL Networks, your local electricity lines company is doing a 5 minute survey on customers to find out how you feel about the reliability of the electricity supply and what your future needs and expectations are, in terms of the electricity supply. Do you have a spare couple of minutes to participate in the survey? Your participation will put you in the draw to receive one of two \$100 dinner vouchers.

1. When was the last time the power went off at work?

Can't remember days ago weeks ago months ago years ago

2. How would you rate the current power supply in terms of reliability?

More than Acceptable Acceptable Unacceptable Totally Unacceptable

3. Do you feel that the power supply in terms of reliability over the past few years has:

Improved Stayed the same Got worse

4. Would you like to see further improvement in the reliability of the power supply? (i.e less power cuts)

Yes No It depends Don't Know

5. Would your business be prepared to pay more for an improved power supply?

Yes No It depends Don't know

5A. If Yes - What would you expect for this extra money?

—

5B. If no – How would you feel about maintaining your current level of reliability for the current prices?

Totally unsatisfied Unsatisfied Satisfied Totally satisfied

6. If you had to choose, would you rather have fewer power cuts lasting a longer time or more power cuts each lasting a shorter time?

Fewer for longer time More for shorter time None at all

6A. When an outage occurs what do you feel is a reasonable time to be without power?

<30 mins 30 to 45mins 45 to 60 mins 60 to 90 mins 90 to 180 mins 180+

6B. How many times per year do you think it is acceptable for your power to go off?

0 1 2 3-5 5-10 10+

7. Have you ever experienced very short power cuts (of less than 1 minute)?

Yes No Don't know

7A. If yes – would you say these short interruptions are:

No problem A slight inconvenience An inconvenience A major inconvenience

8. If you could tell WEL Networks one thing about how they could improve their service, what would it be?

9. What is your business name and location?

10. Name and phone number if you wish to go into the draw.
