



★ wellington electricity™

Commerce Act (Electricity Distribution Thresholds) Notice 2004

Threshold Compliance Statement for Wellington Electricity Lines Limited

Results against Price and Quality Thresholds

21 May 2010

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Introduction

- 1.1 This threshold compliance statement ("the Statement") is submitted by Wellington Electricity Lines Limited ("WELL") pursuant to s7(1)(a) of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 ("the Notice") which has been extended by section 54J of the Commerce Act 1986 ("the Act") to extend to the year ended 31 March 2010. The Statement is also made pursuant to the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2009 ("the Amendment Notice").
- 1.2 The Notice relates to the performance of electricity lines businesses as part of the Commerce Commission's ("the Commission") development and operation of a regulatory regime for such businesses, pursuant to the previous Part 4A of the Act. Section 54J of the Act states that a breach of a default price-quality path before the close of 31 March 2010 must be dealt with in accordance with section 54N of the Act and not under the new Part 6. Section 54N covers breaches of thresholds and default price-quality paths before 1 April 2010 in accordance with Part 4A of the Act.
- 1.3 The Notice requires lines businesses to publicly disclose information relevant to the assessment of their performance against the thresholds.
- 1.4 The Statement is divided into two sections. Section 1 on the Price Path Threshold and Section 2 on the Quality Threshold.
- 1.5 Section 1 details a technical breach of the Price Path Threshold, caused by such factors as CPI in 2010 being lower than the Reserve Bank forecast at the time WELL set its prices. Section 2 details a Quality Threshold breach. WELL will provide the Commission with greater detail on this in a separate letter.

Section 1 - Price Path Threshold

Price Path Threshold assessment as at 31 March 2010

- 1.6 This section of the Statement pertains to the requirements of the Commission's Price Path Threshold for the 31 March 2010 assessment date.
- 1.7 WELL, along with other lines businesses, is required to demonstrate that notional revenue calculated in accordance with the Notice has not increased by more than CPI-X and changes in pass through costs, for the period from 1 April 2009 to 31 March 2010. The Amendment Notice set an X factor value of 0% for WELL.
- 1.8 Tables contained in the Statement are aggregates of the attached appendices that reflect the price multiplied by the appropriate quantity for each pricing category.
- 1.9 For presentation purposes some numbers in this document have been rounded. In most cases calculations are based on more detailed numbers (i.e. to more decimal places than shown in this document). This may cause small discrepancies or rounding inconsistencies when aggregating some of the information presented in this document. These discrepancies do not affect the overall compliance calculations which have been based on the more detailed information.

Sale of the Wellington network

- 1.10 On 24 July 2008, Vector Limited ("Vector") completed the sale of the Wellington electricity distribution network (WELL) to Hong Kong Electric Holdings Limited and Cheung Kong Infrastructure Holdings Limited ("CKI"). Vector continued to own and operate the Auckland and Northern (Waitemata) electricity distribution networks.
- 1.11 As a result of the sale, for the previous period from 1 April 2008 to 31 March 2009, Vector and WELL adopted an approach to enable Vector and WELL to jointly demonstrate their compliance with the Price Path Threshold and separately demonstrate compliance with the Quality Threshold for the year ended 31 March 2009. However, for the year ended 31 March 2010, and covered by this Statement, Vector and WELL have separately demonstrated compliance with the Price Path and Quality Thresholds.

Exclusions

- 1.12 Only a subset of WELL's services are relevant to the Commission's consideration under the Notice; namely electricity distribution goods or services or services directly related to electricity distribution.

1.13 Accordingly, as provided for in the Notice (definition of 'specified services'), WELL has excluded a range of services from this Statement. Where services related to electricity distribution are excluded, WELL has complied with the regulations by demonstrating that there is workable or effective competition for the provision of those services.

1.14 WELL has taken a conservative approach to service exclusions. For example, some services provided to large consumers and charter payments that could be considered for exclusion have not been excluded.

Disclaimer

1.15 The information contained in this Statement has been prepared for the express purpose of complying with the requirements of the Notice. This statement has not been prepared for any other purpose. WELL expressly disclaims any liability to any other party who may rely on this statement for any other purpose.

1.16 Representations in this statement made by WELL relate solely to the services offered on the electricity distribution network in the Wellington region.

Statement of compliance

2.1 As required by s7(1)(a) of the Notice, the Statement:

- (a) provides evidence in the form of revenues, notional revenues, prices, base quantities, pass-through costs, units of measurement associated with all numeric data, list of excluded services (and the reasons and supporting evidence for excluding these services);
- (b) provides evidence in the form of SAIDI and SAIFI statistics, relevant information from asset management plans, and other data, information, and calculations that confirm WELL's non-compliance with the reliability criteria (s6(1)(a) and (b));
- (c) provides a description of policies and procedures used by WELL to record SAIDI and SAIFI statistics; and
- (d) includes such other information as WELL considers is sufficient to enable the Commission to properly determine whether or not the thresholds have been breached.

Public disclosure

2.2 As required by s7(1), WELL has disclosed and published the Statement on the Internet, including:

- (a) a report on the Statement signed by WELL's auditor (Deloitte), as required by s7(1)(b) of the Notice ("the Auditor's Report"); and
- (b) a certificate duly signed by two Directors of WELL, as required by s7(1)(c) of the Notice ("the Certificate").

2.3 As required by s7(8), WELL hereby advises the Uniform Resource Locator ("URL") for accessing the Statement, the Auditor's Report and the Certificate to be;

<http://www.welectricity.co.nz/corporate/disclosures.html>

2.4 Copies of the Statement (containing the Auditor's Report and the Certificate) are available from;

Wellington Electricity Lines Limited, L3, 75 The Esplanade, Petone, New Zealand.

Price Path Threshold requirement (s5(1)(a) of the Notice)

- 3.1 As required by s5(1)(a), in order to demonstrate compliance with the Price Path Threshold, lines businesses are required to demonstrate that their notional revenue at the assessment date has not exceeded the allowable notional revenue under the CPI-X price path at that assessment date.
- 3.2 As outlined in the following table, WELL has breached the Price Path Threshold by \$141,244.

| Notice Requirement | Actual notional revenue divided by allowable notional revenue at the assessment date | Is not to exceed | One |
|--------------------|--|------------------|-----|
| Notice expression | $\frac{NR_{2010}}{R_{2010}}$ | \leq | 1 |
| WELL Result | $\frac{\$84,543,574}{\$84,402,330} = 1.0017$ | \geq | 1 |

- 3.3 The summary calculation of NR_{2010} and R_{2010} is provided below.

| WELL's Allowable Notional Revenue, $R_{2010} = R_{2009}(1 + \Delta CPI_{2009})(1 - X)$ | |
|--|----------------------------|
| Calculation Components | Amount |
| R_{2009} – is the allowable notional revenue under the CPI-X price path at 31 March 2009 | \$82,653,663 |
| ΔCPI_{2010} – the average change in the consumer price index over the calendar year that ends during the assessment period (calculated in accordance with the following expression): $\Delta CPI_{2010} = \frac{CPI_{Q1,2009} + CPI_{Q2,2009} + CPI_{Q3,2009} + CPI_{Q4,2009}}{CPI_{Q1,2008} + CPI_{Q2,2008} + CPI_{Q3,2008} + CPI_{Q4,2008}} - 1$ Where $CPI_{Qj,y}$ is the consumer price All Groups Index SE9A figure published by Statistics New Zealand for the quarter j in the calendar year y | $(4344/4254) - 1 = 2.12\%$ |
| X – is the "X factor" value specified in Schedule 1 of the Amendment Notice for the distribution business, subject to <i>clause 5(3)</i> | 0.00% |
| Total Allowable Notional Revenue as at 31 March 2010 | \$84,402,330 |

| WELL's Actual Notional revenue, $NR_{2010} = \sum P_{i,2010} Q_i - K_{2010}$ | |
|--|---------------------|
| Calculation Components | Amount |
| $\sum P_{i,2010} Q_i$ – the sum of the prices as at 31 March 2010 multiplied by the corresponding base quantities for the year ended 31 March 2003 | \$131,117,718 |
| K_{2010} – the sum of all pass-through costs for the assessment period | \$46,574,144 |
| Total Actual Notional Revenue as at 31 March 2010 | \$84,543,574 |

3.4 For the previous year ended 31 March 2009, Vector and WELL made a combined compliance statement, which allocated total allowable notional revenue on a pro-rata basis across both their respective networks. The approach taken for the allocation ensured that the outcome of the sale process would be the same as if Vector had not sold the Wellington network and continued to comply with the CPI-X threshold across its three networks. The details of the calculation are covered in the previous compliance statement.¹ For the year ended 31 March 2010 Vector and WELL have made independent compliance statements, however, WELL's total allowable notional revenue, R_{2009} , which is escalated by CPI_{2010} to get R_{2010} is derived from the calculations in the previous combined compliance statement.

Second Price Path Threshold requirement (s5(1)(b) of the Notice)

- 4.1 Under s5(1)(b), 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.
- 4.2 WELL does not comply with s5(1)(b) of the Notice as WELL's actual notional revenue \$84,543,574 has exceeded the allowable notional revenue of \$84,402,330 at the assessment date, making for a breach of the Price Path Threshold of \$141,244.

Reasons for breach

- 4.3 When WELL set its prices for the 2009/10 period it did so with a contingency built into the price path to allow for fluctuations in forecast variables. A buffer of \$315,000 was allowed, however, a combination of lower than forecast CPI (WELL used a prediction of CPI_{2010} incorporating projections from the Reserve

¹ Commerce Act (Electricity Distribution Thresholds) Notice 2004 Joint Threshold Compliance Statement for Vector and Wellington Electricity, Section 1 – Price Path Threshold, 20 May 2009, paragraphs 3.6 – 3.8, pp. 9.

Bank Monetary Policy Statement) and lower than forecast transmission costs has resulted in a small technical breach of \$141,244.

Specified Services

- 5.1 To demonstrate compliance all prices for specified services multiplied by the appropriate base quantities need to be summed.
- 5.2 The following tables set out all assessable revenue sources for WELL with the corresponding notional revenues for the relevant date.

| Description | | Appendix | Year ended 31 March 2010 |
|-------------|--|----------|-----------------------------|
| 5.3 | Wellington residential and commercial notional revenue. | WGN2 | \$103,310,277 |
| 5.4 | Wellington small industrial and non-standard notional revenue. | WGN3 | \$19,582,834 |
| 5.5 | Wellington utility rate notional revenue | WGN6 | \$2,149,165 |
| 5.6 | Wellington on-peak notional revenue. | WGN7 | \$ 6,075,442 |
| 5.7 | Total Specified Services | | \$131,117,718 |

Pass-Through Costs

6.1 The table below provides the break down of pass through costs incurred by WELL over the assessment period.

| Description | Year to 31 March 2010 (million) Actual |
|-----------------------|---|
| Transmission | \$44.459 |
| Utility Rates Summary | \$1.793 |
| EC Levy Summary | \$0.322 |
| Total | \$46.574 |

6.2 The transmission quantities are the sum of actual charges to WELL for the year ended 31 March 2010.

6.3 The utility rates are the total cost of utility rates charged to WELL and applicable to the electricity business for the year ended 31 March 2010 .

6.4 The EC Levies include all applicable components (Common Quality, Registry and Consumer, Transmission, Other Activities and MACQS Reform invoice lines) charged to WELL for the year ended 31 March 2010.

Excluded Services

- 7.1 WELL operates in the instantaneous reserves market. The market is fully contestable and income is derived as a result of a competitive tendering process and is not associated with the conveyance of electricity.
- 7.2 The following activities are excluded services in accordance with paragraph (e) of the definition of specified services s3(1) as these income sources are not related to electricity distribution and/or are non conveyance activities:
- (a) Electrical work carried out at the request of consumers on their property;
 - (b) Use of network poles by third parties e.g. Telecommunication companies (noting that there are options available to network operators other than use of WELL's poles); and
 - (c) Miscellaneous other revenue, for example, rentals received from properties, profit on sale of assets and interest received.
- 7.3 The following activities are excluded services in accordance with paragraph (i) of the definition of specified services s3(1) as they are contestable activities for the provision of which there is workable or effective competition:
- (a) Connections services;
 - (b) Disconnection services; and
 - (c) Reconnection services.
- WELL allows other suitably trained and authorised service providers to undertake connection, disconnection and reconnection services.
- 7.4 WELL receives income from parties requiring network extensions or alterations, reflecting the level of investment undertaken by WELL. This has been excluded from the Price Path Threshold compliance calculation because:
- (a) WELL contributes to the total cost of the extension. Assets are vested in WELL on behalf of consumers, but consumers can also elect to own the works or vest them in a third party. Examples of such situations include shopping malls, retirement villages, and residential subdivisions. Additionally, third parties can select the contractors to construct the works; and
 - (b) Consumers may choose to contract with a third party to construct and maintain such assets, rather than providing WELL with a contribution. Therefore, workable or effective competition exists for such services and

customer contributions are appropriately excluded. (Refer also to the Commerce Commission Investigation Ref J5131, which is publicly available).

Appendix WGN2 Wellington residential and commercial notional revenue

- For each price plan or load group the base quantity (number of end consumers or annual energy of all consumers) was retrieved from the appropriate information systems for the year ended 31 March 2003.
- Prices applicable for the assessment period have been taken from WELL's published price schedules.
- On 1 April 2008, WELL's predecessor Vector restructured price structures in the Wellington network for commercial ICPs to align price structures between the Northern, Auckland and Wellington networks. Wellington commercial structures were rationalised by combining some capacity based load groups together into simplified capacity groups. These capacity groups were then categorised depending on how each capacity group connects to the network, either to the low voltage network or directly to a transformer.
- Base quantities have been mapped to prices at the assessment date. During the base quantity period, no ICPs were identified which would have been eligible for transformer pricing. All quantities have been mapped to the appropriate low voltage load group (low voltage pricing is generally more expensive than transformer pricing).
- Base quantities were multiplied by the price applicable to the load group to determine the notional revenue for the assessment period.

| Appendix WGN2 | | | | | | | |
|---|-------------|-----------------------|---------------|-------------|-----------------|------------|------------------|
| Wellington notional revenue excluding asset specific and non-standard | | | | | | | |
| THRESH2.2 a-8 G.mdb/q2010,1 P*Q | | | | | | | |
| Sum (\$) | | | | | | | 103,310,277 |
| Network | Charge Type | 2002/2003 Tariff Code | Base Quantity | Base Q Unit | 2009/2010 Price | Price Unit | Notional Revenue |
| UNG | Fixed | 08G | 160 | ICPs | 0.4129 | \$/day | 24,113 |
| UNG | Fixed | 09G | 2 | ICPs | 1.0682 | \$/day | 780 |
| UNG | Fixed | 11G | 1 | ICPs | 0.1184 | \$/day | 43 |
| UNG | Fixed | 20G | 1 | ICPs | 1.0682 | \$/day | 390 |
| UNG | Fixed | G01 | 52 | ICPs | -0.0015 | \$/day | - 28 |
| UNG | Fixed | G02 | 65 | ICPs | -0.0015 | \$/day | - 36 |
| UNG | Fixed | G11 | 49475 | ICPs | 0.1184 | \$/day | 2,138,112 |
| UNG | Fixed | G12 | 83848 | ICPs | 0.1184 | \$/day | 3,623,575 |
| UNG | Fixed | G13 | 3521 | ICPs | 0.1184 | \$/day | 152,164 |
| UNG | Fixed | G14 | 2508 | ICPs | 0.1184 | \$/day | 108,386 |
| UNG | Fixed | G15 | 2041 | ICPs | 0.4129 | \$/day | 307,596 |
| UNG | Fixed | G16 | 1412 | ICPs | 0.4129 | \$/day | 212,800 |
| UNG | Fixed | G17 | 5 | ICPs | 0.4129 | \$/day | 754 |
| UNG | Fixed | G18 | 1 | ICPs | 0.4129 | \$/day | 151 |
| UNG | Fixed | G20 | 11271 | ICPs | 1.0682 | \$/day | 4,394,484 |
| UNG | Fixed | G21 | 201 | ICPs | 1.0682 | \$/day | 78,368 |
| UNG | Fixed | G22 | 94 | ICPs | 6.1990 | \$/day | 212,688 |
| UNG | Fixed | G23 | 87 | ICPs | 6.1990 | \$/day | 196,849 |
| UNG | Fixed | G24 | 9 | ICPs | 8.8438 | \$/day | 29,052 |
| UNG | Fixed | G26 | 6 | ICPs | 8.8438 | \$/day | 19,368 |

| | | | | | |
|-----|----------|----------|---------------|---------------|------------|
| UNG | Variable | 01G/AICO | 63500 kWh | 0.1210 \$/kWh | 7,684 |
| UNG | Variable | 02G/AICO | 6635 kWh | 0.1210 \$/kWh | 803 |
| UNG | Variable | 08G_N/A | 292000 kWh | 0.0511 \$/kWh | 14,921 |
| UNG | Variable | 09G_N/A | 60590 kWh | 0.0355 \$/kWh | 2,151 |
| UNG | Variable | 10G/24UC | 2226 kWh | 0.0687 \$/kWh | 153 |
| UNG | Variable | 10G/CT17 | 872 kWh | 0.0687 \$/kWh | 60 |
| UNG | Variable | 10G/CTUD | 1526 kWh | 0.0687 \$/kWh | 105 |
| UNG | Variable | 10G/NITE | 1600 kWh | 0.0148 \$/kWh | 24 |
| UNG | Variable | 10G/T24U | 56265 kWh | 0.0687 \$/kWh | 3,865 |
| UNG | Variable | 11G/TAIC | 162245 kWh | 0.0687 \$/kWh | 11,146 |
| UNG | Variable | 12G/TAIC | 5677 kWh | 0.0687 \$/kWh | 390 |
| UNG | Variable | 20G/CT17 | 6607 kWh | 0.0355 \$/kWh | 235 |
| UNG | Variable | 20G/CTUD | 10190 kWh | 0.0355 \$/kWh | 362 |
| UNG | Variable | 20G/NITE | 27630 kWh | 0.0355 \$/kWh | 981 |
| UNG | Variable | 20G/T24U | 13946794 kWh | 0.0355 \$/kWh | 495,111 |
| UNG | Variable | G01/24UC | 2842456 kWh | 0.1210 \$/kWh | 343,937 |
| UNG | Variable | G02/24UC | 15574116 kWh | 0.1210 \$/kWh | 1,884,468 |
| UNG | Variable | G11/AICO | 177498228 kWh | 0.0687 \$/kWh | 12,194,128 |
| UNG | Variable | G11/NITE | 3712478 kWh | 0.0148 \$/kWh | 54,945 |
| UNG | Variable | G11/PROJ | 93355081 kWh | 0.0687 \$/kWh | 6,413,494 |
| UNG | Variable | G12/AICO | 513028975 kWh | 0.0687 \$/kWh | 35,245,091 |
| UNG | Variable | G12/NITE | 12007991 kWh | 0.0148 \$/kWh | 177,718 |
| UNG | Variable | G12/PROJ | 247099978 kWh | 0.0687 \$/kWh | 16,975,768 |
| UNG | Variable | G13/24UC | 24532704 kWh | 0.0873 \$/kWh | 2,141,705 |
| UNG | Variable | G13/CTRL | 6402736 kWh | 0.0409 \$/kWh | 261,872 |
| UNG | Variable | G13/NITE | 1240823 kWh | 0.0148 \$/kWh | 18,364 |
| UNG | Variable | G14/24UC | 8566756 kWh | 0.0873 \$/kWh | 747,878 |
| UNG | Variable | G14/CTRL | 2522718 kWh | 0.0409 \$/kWh | 103,179 |
| UNG | Variable | G14/NITE | 1510998 kWh | 0.0148 \$/kWh | 22,363 |
| UNG | Variable | G15/AICO | 10046912 kWh | 0.0511 \$/kWh | 513,397 |
| UNG | Variable | G15/NITE | 15352 kWh | 0.0511 \$/kWh | 784 |
| UNG | Variable | G16/AICO | 21626530 kWh | 0.0511 \$/kWh | 1,105,116 |
| UNG | Variable | G16/NITE | 8801 kWh | 0.0511 \$/kWh | 450 |
| UNG | Variable | G17/24UC | 32193 kWh | 0.0511 \$/kWh | 1,645 |
| UNG | Variable | G17/CTRL | 7188 kWh | 0.0511 \$/kWh | 367 |
| UNG | Variable | G18/24UC | 1443 kWh | 0.0511 \$/kWh | 74 |
| UNG | Variable | G18/CTRL | 752 kWh | 0.0511 \$/kWh | 38 |
| UNG | Variable | G20/24UC | 263881648 kWh | 0.0355 \$/kWh | 9,367,799 |
| UNG | Variable | G20/CTRL | 1287221 kWh | 0.0355 \$/kWh | 45,696 |
| UNG | Variable | G20/CTUD | 6817876 kWh | 0.0355 \$/kWh | 242,035 |
| UNG | Variable | G20/CTUN | 549402 kWh | 0.0355 \$/kWh | 19,504 |
| UNG | Variable | G20/NITE | 2797915 kWh | 0.0355 \$/kWh | 99,326 |
| UNG | Variable | G20/PROJ | 83450150 kWh | 0.0355 \$/kWh | 2,962,480 |
| UNG | Variable | G20TAIC | 9471 kWh | 0.0355 \$/kWh | 336 |
| UNG | Variable | G21/24UC | 4397698 kWh | 0.0355 \$/kWh | 156,118 |
| UNG | Variable | G22/24UC | 3115756 kWh | 0.0419 \$/kWh | 130,550 |
| UNG | Variable | G22/CTUD | 82906 kWh | 0.0419 \$/kWh | 3,474 |
| UNG | Variable | G22/NITE | 45262 kWh | 0.0419 \$/kWh | 1,896 |
| UNG | Variable | G23/24UC | 554952 kWh | 0.0419 \$/kWh | 23,252 |
| UNG | Variable | G24/24UC | 464742 kWh | 0.0174 \$/kWh | 8,087 |
| UNG | Variable | G26/24UC | 307089.7 kWh | 0.0174 \$/kWh | 5,343 |

Appendix WGN3 Wellington small industrial and non-standard notional revenue

- On 1 April 2008 there was a restructuring of prices on the Wellington network for small industrial ICPs to align price structures between the Northern, Auckland and Wellington networks. Wellington small industrial structures were changed from multiple options based on metering voltage, capacity, and transformer ownership to published rationalised fixed, variable, capacity and demand charges. Pricing for these ICPs was disaggregated into two options depending on how the ICP connects to the network, either to the low voltage network or directly to a transformer.
- Base quantity information was able to be mapped directly between the old and new price structures.

| Appendix WGN3 | | | | | | | |
|---|-----------------------|-----------------------|-------------------|-------------|---------------------|------------|---------------------------|
| Wellington small industrial and non-standard notional revenue | | | | | | | |
| THRESH1.0 a-8 A,G,W.xls | | | | | | | |
| Sum (\$) | | | | | | | 19,582,834 |
| Network | 2002/2003 Charge Type | 2002/2003 Tariff Code | Base Quantity (Q) | Base Q Unit | 2009/2010 Price (P) | Price Unit | P*Q Notional Revenue (\$) |
| UNG | | G40-G49 & 60G | 632 | ICPs | | | 19,027,254 |
| UNG | | G40-G49 & 60G | 518,322,039 | kWh | | | |
| UNG | | 60G | 1 | ICPs | | | 555,580 |

Appendix WGN6 Wellington utility rate notional revenue

- Several territorial local authorities in the greater Wellington region introduced a utility rate levy from 1 July 2002.
- Due to the timing of their introduction, and in light of ongoing increases as other councils seek to introduce these, a levy was introduced such that the utility rates cost would be recovered transparently through a separate fixed daily charge applied to each point of connection to the network.
- As shown in the calculation below, there have been no structural changes to the charges for these ICPs and notional revenue has been determined consistent with previous threshold compliance statements.

| Appendix WGN6 | | | | | | | |
|---|-----------------------|------------------------|-------------------|-------------|---------------------|------------|---------------------------|
| Wellington network, utility rate notional revenue | | | | | | | |
| THRESH1.0 a-8 A,G,W.xls | | | | | | | |
| Sum (\$) | | | | | | | 2,149,165 |
| Network | 2002/2003 Charge Type | 2002/2003 Tariff Code | Base Quantity (Q) | Base Q Unit | 2009/2010 Price (P) | Price Unit | P*Q Notional Revenue (\$) |
| UNG | Fixed | Council Utility Charge | 186,333 | Connection | 0.0316 | \$/day | 2,149,165 |

Appendix WGN7 Wellington on-peak notional revenue

- On-peak pricing was introduced on 1 April 2006. Please refer to the 2007 Vector threshold compliance statement for a synopsis on the issues associated with the introduction of new base quantities related to the new on-peak pricing structure.
- There have been no structural changes to the charges for these ICPs and notional revenue has been determined consistent with previous threshold compliance statements.

| Appendix WGN7 | | | | | | | |
|-------------------------------------|-----------------------|-----------------------|-------------------|-------------|---------------------|------------|---------------------------|
| Wellington on-peak notional revenue | | | | | | | |
| THRESH1.0 a-8 A,G,W.xls | | | | | | | |
| Sum (\$) | | | | | | | 6,075,442 |
| Network | 2002/2003 Charge Type | 2002/2003 Tariff Code | Base Quantity (Q) | Base Q Unit | 2009/2010 Price (P) | Price Unit | P*Q Notional Revenue (\$) |
| UNG | Fixed | GLI60_FIXD | 10,220 | days | 0.0071 | \$/day | 73 |
| UNG | Variable | GLI60_24UC | 165,963,908 | kWh | 0.0012 | \$/kWh | 199,157 |
| UNG | Demand | GLI60_DOPC | 249,823 | kW | 9.9935 | \$/kW | 2,496,610 |
| UNG | Demand | GLI60_DOPU | 214,529 | kW | 10.4055 | \$/kW | 2,232,283 |
| UNG | Connection | GLI60_CAPH | 48,000 | kVA-month | 0.0251 | \$/kVA/day | 36,646 |
| UNG | Connection | GLI60_CAPT | 846,900 | kVA-month | 0.0251 | \$/kVA/day | 646,573 |
| UNG | Reactive | GLI60_PWRF | 62,777 | kVAr | 7.3929 | \$/kVAr | 464,102 |

Section 2 - Quality Threshold

Quality Threshold assessment as at 31 March 2010

8.1 This section of the Statement pertains to the requirements of the Commission’s Quality Threshold for the 31 March 2010 assessment date.

Reliability Criterion

8.2 Lines businesses are required to demonstrate that their system average interruption duration index (“SAIDI”) and system average interruption frequency index (“SAIFI”) for the assessment year do not exceed the five year average to 31 March 2003 for those respective reliability measures. WELL exceeds both reliability targets, as summarised in the table below.

| Notice Requirement | Result for assessment year | Target | Outcome | Target exceeded by | Target exceeded by (%) |
|--------------------|----------------------------|--------|---------|--------------------|------------------------|
| 6(1)(a) - SAIDI | 40.629 | 29.7 | Breach | 10.9 | 37% |
| 6(1)(b) - SAIFI | 0.583 | 0.436 | Breach | 0.147 | 34% |

8.3 Wellington Electricity did not own the Wellington network during the five year reference period to 31 March 2003 for SAIDI and SAIFI. This information was sourced from Vector, the previous owner of the network.

Extreme Event Identification using the 2.5 Beta Method

8.4 WELL’s 2.5 Beta Method calculations were performed in accordance with the steps laid out in ‘Appendix 1: Application of the Beta Method’ from the Commerce Commission’s Supplementary Guidelines document dated 2 November 2007.

8.5 WELL has comprehensive reliability data available from 1998. This has been used to calculate historical Major Event Day (MED) values and exclude them from the 5 years preceding the 2009/10 regulation year (the period 1/4/2003-31/3/2009). With the exclusion of these historic storms, regulation year T_{MED} values were calculated to be:

| | SAIDI | SAIFI |
|------------------|-------|-------|
| T _{MED} | 8.83 | 0.197 |

- 8.6 No day in the 2009/10 regulatory period exceeded the SAIDI T_{MED} value. No SAIDI relief is available under this clause.

Consumer engagement criterion

- 8.7 WELL has been advised by the Commission that Electricity Distribution Businesses ("EDBs") are not required to demonstrate compliance with clause 6(1)(c) customer communication for the two year period ended 31 March 2010.² On this advice WELL has chosen not to demonstrate compliance in this Statement with the customer engagement criterion for the 31 March 2010 assessment date. WELL has, however, conducted a customer engagement and satisfaction survey during the assessment period, the results of which are reported in its 10 Year Asset Management Plan for the period 1 April 2010 - 31 March 2020.

Disclosure of Information Required (Clause 7(1)(a)(iii) – SAIDI and SAIFI policies and procedures)

- 8.8 The following are the procedures which WELL uses for recording SAIDI and SAIFI statistics:
- 8.9 The primary control system is the Foxboro SCADA system at the Haywards Control Centre, which provides indication and control of major devices in the network.
- All planned and unplanned outages of 11 kV and greater are recorded.
 - All unplanned outages less than one minute in duration (including successful auto-reclose events) are recorded, however, the SAIDI and SAIFI details are not counted.
 - Outages are recorded using Foxboro (SCADA), manual logs, ENMAC and manual data entering in the Reliability Report Sheet.

Vector management of the network (1 April 2009 – 13 June 2009)

- 8.10 During this period, control room operations were handled by the Vector control room in Auckland using the Foxboro SCADA system. Events were recorded manually on paper fault log sheets, and subsequently entered into the HV Events database with customer numbers and times of switching operations. This database was used to provide a summary report and details of individual events

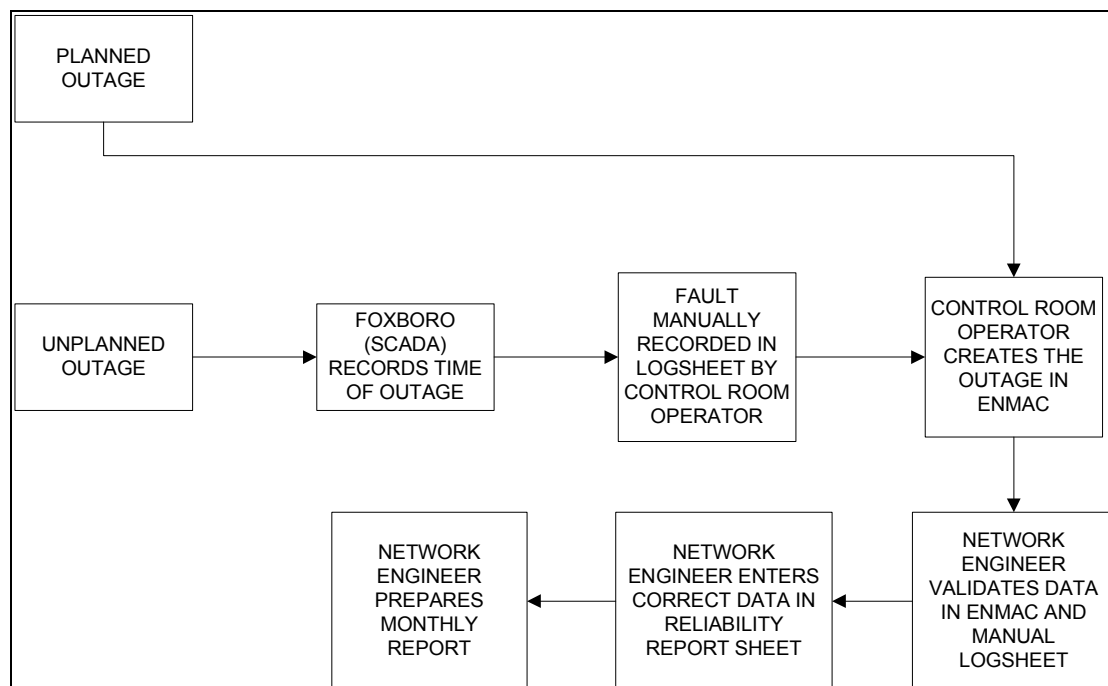
² 3 February 2010 Letter from Brent Alderton, General Manager – Regulation, Commerce Commission.

and was provided to WELL following the 13 June 2009 operational control handover.

WELL management of the network (13 June 2009 – onwards)

8.11 WELL is presently implementing a new GE ENMAC control system and continues to operate the Foxboro SCADA until such time as the ENMAC system is fully operational. ENMAC will be the database that stores the outage information, as well as being a live SCADA system. During the changeover, the recording of outage information has a number of additional steps between the systems, and undergoes a process of manual validation.

8.12 The current procedure that is followed to capture network performance information for planned and unplanned outages is shown in the following diagram and discussed in detail below:



8.13 For unplanned outages, the initial indication is provided by the Foxboro SCADA system and the fault is time stamped, along with subsequent switching operations. Where the outage relates to a non-SCADA indicating device, such as a drop-out fuse, the outage is recorded from the time the faultman confirms on site that it is an HV fault, then subsequent switching operations are completed on the Foxboro SCADA system (as a system mimic) and are time stamped.

8.14 The fault is manually recorded by the Control Room Operator to keep details of the switching procedure which includes the time of switching operations (taken from Foxboro). The Control Room Operator will then create an outage in ENMAC

and enter the data manually. The total number of customers is in ENMAC's database and ENMAC computes the SAIDI and SAIFI statistics automatically.

8.15 After an outage is resolved, an outage report is generated by ENMAC which the Network Engineer validates by comparing the details in ENMAC to the manual log sheet. The information that is validated is as follows:

- date outage started and ended
- time outage started and ended
- duration of outage
- number of customers impacted
- total customers minutes lost (based on switching operations)
- total customer number (on network)
- SAIDI for outage
- SAIFI for outage
- Fault type
- Fault cause

8.16 As the ENMAC control system is still in the process of implementation, there is a requirement to ensure the data transferred from Foxboro SCADA to ENMAC is correct. The Network Engineer makes sure of this by comparing the ENMAC reports with the manual fault logs, and where necessary re-entering the correct data³ into an external spreadsheet. The information from this reporting spreadsheet is used for the monthly reporting of SAIDI and SAIFI indices and also for the reporting of yearly performance.

8.17 For planned outages, the proposed switching operations are entered into ENMAC by the Outage Planner prior to the event. During the event the Control Room Operator enters the time the operation occurred. The data is also validated by the network engineer before it is entered in the reliability report sheet.

8.18 In time, with the full implementation of the ENMAC system, records of planned and unplanned events will occur automatically in ENMAC and will not need to be verified against another system and reported externally as currently occurs. All data and reports will then come directly from ENMAC.

³ Correctness of this data is ensured by the Foxboro timestamp.

Appendices

Appendix 2-1 Calculation of SAIDI and SAIFI figures for the purposes of S6(1)(A) and 6(1)(B)

Note: All figures exclude Transpower interruptions.

| Year | Customer Minutes Lost | Customers Impacted |
|-------------|------------------------------|---------------------------|
| 98/99 | 5,325,929 | 79,471 |
| 99/00 | 4,374,313 | 57,094 |
| 00/01 | 4,315,758 | 59,125 |
| 01/02 | 3,542,016 | 63,038 |
| 02/03 | 4,493,664 | 65,195 |
| 03/04 | 11,769,009 | 99,476 |
| 04/05 | 6,288,957 | 60,717 |
| 05/06 | 4,980,787 | 80,086 |
| 06/07 | 5,583,921 | 103,168 |
| 07/08 | 5,111,293 | 83,057 |
| 08/09 | 5,745,190 | 86,274 |
| 09/10 | 8,626,989 | 111,077 |

Benchmark Years

| Year | SAIDI | SAIFI |
|------------------------|--------------|--------------|
| 98/99 | 36.9 | 0.551 |
| 99/00 | 29.9 | 0.390 |
| 00/01 | 29.0 | 0.397 |
| 01/02 | 23.4 | 0.416 |
| 02/03 | 29.3 | 0.425 |
| Threshold (average) | 29.7 | 0.436 |

Regulated Years

| Year | SAIDI | SAIFI |
|-------------|--------------|--------------|
| 03/04 | 75.7 | 0.640 |
| 04/05 | 40.0 | 0.386 |
| 05/06 | 31.4 | 0.505 |
| 06/07 | 35.0 | 0.646 |
| 07/08 | 31.7 | 0.514 |
| 08/09 | 35.3 | 0.531 |
| 09/10 | 40.6 | 0.583 |


Customer Numbers

| Year | Customer Count | Regulation Year | Regulation Customers |
|----------|----------------|-----------------|----------------------|
| 1-Apr-94 | 134,830 | | |
| 1-Apr-95 | 136,852 | 94/95 | 135,841 |
| 1-Apr-96 | 138,905 | 95/96 | 137,879 |
| 1-Apr-97 | 140,989 | 96/97 | 139,947 |
| 1-Apr-98 | 143,104 | 97/98 | 142,046 |
| 1-Apr-99 | 145,250 | 98/99 | 144,177 |
| 1-Apr-00 | 147,429 | 99/00 | 146,340 |
| 1-Apr-01 | 150,493 | 00/01 | 148,961 |
| 1-Apr-02 | 152,595 | 01/02 | 151,544 |
| 1-Apr-03 | 154,554 | 02/03 | 153,575 |
| 1-Apr-04 | 156,357 | 03/04 | 155,456 |
| 1-Apr-05 | 158,462 | 04/05 | 157,410 |
| 1-Apr-06 | 158,647 | 05/06 | 158,555 |
| 1-Apr-07 | 160,602 | 06/07 | 159,625 |
| 1-Apr-08 | 162,349 | 07/08 | 161,476 |
| 1-Apr-09 | 162,900 | 08/09 | 162,625 |
| 1-Apr-10 | 164,081 | 09/10 | 163,591 |

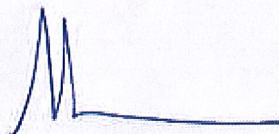
**CERTIFICATE ON THRESHOLD COMPLIANCE
STATEMENT (Clause 7(1)(c))**

We, Richard C. Pearson and Andrew J. Hunter, being directors of Wellington Electricity Lines Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Wellington Electricity Lines 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 the following respects:

Clause 5(1)(a) – Threshold breached
Clause 5(1)(b) – Threshold breached
Clause 6(1)(a) – Threshold breached
Clause 6(1)(b) – Threshold breached



Director



Director

21 May 2010

**AUDITOR'S REPORT ON THRESHOLD COMPLIANCE STATEMENT
TO THE READERS OF THE THRESHOLD COMPLIANCE STATEMENT OF
WELLINGTON ELECTRICITY LINES LIMITED FOR THE ASSESSMENT YEAR ENDED
ON 31 MARCH 2010.**

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 Wellington Electricity Lines Limited for assessment as at 31 March 2010 and dated 21 May 2010 for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 ("the Notice") as amended by the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2006 ("the Amendment Notice 2006") and as extended by the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2009 ("the Amendment Notice 2009"). In this report the attached statement is called "the threshold compliance statement".

Directors' Responsibilities

The Directors of Wellington Electricity Lines Limited are responsible for the certification of the threshold compliance statement in accordance with the Notice, the Amendment Notice 2006 and the Amendment Notice 2009.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the threshold compliance statement in accordance with the Notice, the Amendment Notice 2006 and the Amendment Notice 2009 and report our opinion to you.

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

Basis of Opinion – Price Path Threshold; Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2010

Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures contained on pages 3 to 23 of the threshold compliance statement and which relate to:

- the price path threshold set out in clause 5 of the Notice as amended by clause of the Amendment Notice 2006; and
- the SAIDI and SAIFI statistics for the assessment year ended on 31 March 2010 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 assessment of the significant estimates and judgements, if any, made by Wellington Electricity Lines Limited in the preparation of the threshold compliance statement and assessment of whether the basis of preparation has been adequately disclosed.

This audit report relates to the threshold compliance statement of Wellington Electricity Lines Limited for the year ended 31 March 2010 included on Wellington Electricity Lines Limited's website. The Board of Directors is responsible for the maintenance and integrity of Wellington Electricity Lines Limited's website. We have not been engaged to report on the integrity of Wellington Electricity Lines Limited's website. We accept no responsibility for any changes that may have occurred to the threshold compliance statement since it was initially presented on the website. The audit report refers only to the threshold compliance statement named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the threshold compliance statement. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited threshold compliance statement and related audit report dated 21 May 2010 to confirm the information included in the audited threshold compliance statement presented on this website. Legislation in New Zealand governing the preparation and dissemination of threshold compliance statement may differ from legislation in other jurisdictions.

We planned and performed our audit of the threshold compliance statement so as to obtain all the information and explanations 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). 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 Vector Limited (the previous owners of the electricity distribution network operated by Wellington Electricity Lines Limited) in accordance with the Electricity (Information Disclosure) Regulations 1999; and
- those statistics have been calculated based on the information provided to us. We have not performed audit procedures on the information.

Relationship and Interests

In addition to the audit of the threshold compliance statement we carry out other audit assignments for Wellington Electricity Lines Limited. This involves issuing an audit opinion on the annual financial statements for the year ended 31 December 2009 as well as audit reports pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008. Other than in our capacity as auditor, and the provision of taxation compliance services, we have no relationship with or interests in Wellington Electricity Lines Limited.

Opinions

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 as amended by clause 3 of the Amendment Notice 2006 and related information have been prepared in accordance with the Notice, and give a true and fair view of the performance of Wellington Electricity Lines Limited against that threshold for the assessment year ended on 31 March 2010.

This audit report relates to the threshold compliance statement of Wellington Electricity Lines Limited for the year ended 31 March 2010 included on Wellington Electricity Lines Limited's website. The Board of Directors is responsible for the maintenance and integrity of Wellington Electricity Lines Limited's website. We have not been engaged to report on the integrity of Wellington Electricity Lines Limited's website. We accept no responsibility for any changes that may have occurred to the threshold compliance statement since it was initially presented on the website. The audit report refers only to the threshold compliance statement named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the threshold compliance statement. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited threshold compliance statement and related audit report dated 21 May 2010 to confirm the information included in the audited threshold compliance statement presented on this website. Legislation in New Zealand governing the preparation and dissemination of threshold compliance statement may differ from legislation in other jurisdictions.

Quality Threshold: SAIDI and SAIFI statistics

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

- the SAIDI and SAIFI statistics for the assessment year ended on 31 March 2010 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 Notice and in accordance with Wellington Electricity Lines Limited's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and fairly represent the performance of Wellington Electricity Lines Limited for the assessment year ended on 31 March 2010;
- 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 Vector Limited (the previous owners of the electricity distribution network operated by Wellington Electricity Lines Limited) in accordance with the Electricity (Information Disclosure) Regulations 1999; and
- the SAIDI and SAIFI statistics for the assessment year ended on 31 March 2010, together with SAIDI and SAIFI statistics, which were included in the previous submissions by Vector Limited, for the years ended 31 March 1999, 2000, 2001, 2002 and 2003, give a true and fair view of the performance of Wellington Electricity Lines 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 year ended on 31 March 2010.

Our audit was completed on 21 May 2010 and our opinion is expressed as at that date.



**CHARTERED ACCOUNTANTS
WELLINGTON, NEW ZEALAND**

This audit report relates to the threshold compliance statement of Wellington Electricity Lines Limited for the year ended 31 March 2010 included on Wellington Electricity Lines Limited's website. The Board of Directors is responsible for the maintenance and integrity of Wellington Electricity Lines Limited's website. We have not been engaged to report on the integrity of Wellington Electricity Lines Limited's website. We accept no responsibility for any changes that may have occurred to the threshold compliance statement since it was initially presented on the website. The audit report refers only to the threshold compliance statement named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the threshold compliance statement. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited threshold compliance statement and related audit report dated 21 May 2010 to confirm the information included in the audited threshold compliance statement presented on this website. Legislation in New Zealand governing the preparation and dissemination of threshold compliance statement may differ from legislation in other jurisdictions.