

Network Tasman Limited

52 Main Road Hope
PO Box 4020
Richmond 7031
Nelson, New Zealand

Tel: 64-03-989-3600
Toll-free: 0800 508 098
Fax: 64-3-989-3631
E-mail: info@networktasman.co.nz
Website: www.networktasman.co.nz

NETWORK TASMAN LIMITED THRESHOLD COMPLIANCE STATEMENT

For Assessment Date 31 March 2010

**Pursuant to the
Commerce Act (Electricity Distribution Thresholds) Notice 2004
and
Amendment Notices of 2006 and 2009**

Dated 20th May 2010

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Network Tasman Limited

52 Main Road, Hope 7020
PO Box 3005
Richmond 7050
Nelson, New Zealand

Tel: 64 3 989 3600
Freephone: 0800 508 098
Fax: 64 3 989 3631
Email: info@networktasman.co.nz
Website: www.networktasman.co.nz

1. DIRECTORS CERTIFICATION OF THRESHOLD COMPLIANCE

**IN ACCORDANCE WITH
THE COMMERCE ACT
(ELECTRICITY DISTRIBUTION THRESHOLDS)
NOTICE 2004**

Section 57H(a)

CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENTS

We, Christopher Ian Turner and Annette Margaret Milligan, being Directors of Network Tasman Limited, certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Network Tasman Limited and related information, prepared for the purposes of the Commerce Act (Electricity Distribution Thresholds) Notice 2004, complies with all requirements of that notice except for clause 6(1) (a) concerning the SAIDI quality threshold.

SIGNATURES OF DIRECTORS



CIM Turner
Date: 20 May 2010



A Milligan
Date: 20 May 2010

2. PRICE PATH THRESHOLD COMPLIANCE STATEMENT

Network Tasman Limited certifies that:

a). Information

The audited information attached, including the:

- price path inputs and calculations (Appendix 1)
- network revenue and pricing information (Appendices 2, 3 & 5)
- network base quantity information (Appendix 4)
- transmission cost information (Appendix 6)
- local authority rates and Electricity Commission levy information (Appendix 7)

has been prepared for the purposes of, and complies with, the requirements of Section 5 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004, the Amendment Notices of 2006 and 2009 and Sections 57G and 57T of the Commerce Act 1986.

b). Compliance

Network Tasman Limited **complies with the price path threshold** specified in Sections 5(1)(a) and 5 (1)(b) of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and the Amendment Notices of 2006 and 2009 at the assessment date of 31 March 2010.

The tests below confirm NTL's compliance:

Test 1: Clause 5(1) (a)

The Notional Revenue (NR) 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 (R) 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:	$\frac{NR_{2010}}{R_{2010}}$	≤ 1
Result:	\$18,807,341 / \$19,919,996	< 1
	0.9441	< 1
Result:	Threshold is not breached	

The test above demonstrates Network Tasman Limited has complied with the price threshold; actual notional revenue was \$1,112,655 less than the allowable notional revenue for the assessment period ending 31 March 2010.

Test 2: Clause 5(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 under this clause (or, if the previous assessment date is the reference date, under clause 5 of the Initial Notice).

Test:	$\frac{NR_{Max}}{Max(R_{2009}, R_{2010})}$	≤ 1
Result:	\$18,807,341 / \$19,919,996	< 1
	0.9441	< 1
Result:	Threshold is not breached	

The supporting evidence for Tests 1 & 2 above is provided in Appendices 1-7

c). Notional Revenue

Notional Revenue for the price path calculations includes all revenue NTL derives from the supply of the following specified, non-contestable line function services:

- Electricity conveyance services provided under Use of Systems Agreements with electricity retailers
- Electricity conveyance services provided under Direct Connection Agreements with major electricity consumers and electricity generators
- Access to capacity charges levied directly on new electrical loads at the time of their connection to Network Tasman Limited's distribution network.

d). Pass Through Costs

For the purpose of the price path calculations, pass through costs include:

i) Transmission

- Connection charges
- Interconnection charges
- New Investment charges
- Loss and constraint rental credits
- Avoided transmission charges paid to embedded generators

ii) Rates & Electricity Commission Levies

- Local authority rates levied on systems fixed assets including lines, cables, electrical equipment and substation land and buildings.
- Electricity Commission regulatory costs allocated to lines companies under the current industry levy formula determined by government.

e). Excluded Revenue

The following items of line business revenue, derived from non specified and non conveyancing line business activities, are excluded from Notional Revenue in the price threshold assessment:

- Interest income
- Profit or loss on sale of assets
- Value of assets vested with Network Tasman Limited by consumers
- Other miscellaneous income unrelated to the sale of electricity conveyancing services

f). Contestable Electrical Contracting Environment

Network Tasman Limited does not own or operate electrical contracting facilities and nor does it provide any electrical contracting services to electricity consumers or electricity retailers on a non-contestable basis. Any charges directly borne by electricity consumers or retailers within NTL's geographical area for:

- network extensions
- reinforcements
- repairs and maintenance and
- connection and disconnection services

are determined in a contestable environment and all work is carried out and billed by independent third parties.

3. QUALITY THRESHOLD COMPLIANCE STATEMENT

Network Tasman Limited certifies that:

a) Information

The audited information attached for the:

- Interruption duration index (SAIDI) assessment (Appendix 8)
- Interruption frequency index (SAIFI) assessment (Appendix 8)

was prepared for the purposes of, and complies with, the requirements of Section 6 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004, the Amendment Notices of 2006 and 2009 and Sections 57G and 57T of the Commerce Act 1986.

b) Compliance

The quality threshold assessments for SAIDI and SAIFI below demonstrate that, for the year ended 31 March 2010, **Network Tasman Limited breached the SAIDI threshold but has complied with the SAIFI requirements** of Section 6 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004.

Clause 6 (1) (a) Interruption Duration (SAIDI Classes B&C)

Test:	$SAIDI_{2010} \leq \left(\frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$		
Result:	148.30	>	147.45
	SAIDI breaches the threshold by 0.85 minutes		

Clause 6 (1) (b) Interruption Frequency (SAIFI Classes B&C)

Test:	$SAIFI_{2010} \leq \left(\frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$		
Result:	1.76	<	2.12
Result:	SAIFI does not breach the threshold		

The supporting evidence for these SAIDI and SAIFI threshold tests is provided in Appendix 8.

c) Explanation of NTL's Breach of the SAIDI Quality Threshold in 2009-10.

- (i) NTL breached the SAIDI Quality threshold by just 0.85 minutes.
- (ii) Class C unplanned outage SAIDI minutes were well below average levels recorded over the last 10 years and were close to NTL 2009-10 forecast levels.
- (iii) Class B planned outage SAIDI minutes however were well above historic average levels due to:
 - major planned maintenance work being carried out on rural spur lines
 - undergrounding projects requiring planned outages and
 - customer generated new connection work.

- (iv) While these factors all contributed to the higher levels of planned outage times, a key cause of the breach was NTL adopting a change to its policy concerning the use of live line techniques on small copper conductors. The change was driven by Health and Safety considerations.
- (v) This policy change was implemented during 2009 and was highlighted in NTL's 2010-11 Asset Management Plan:

NTL AMP Extract –Section 4.8

NTL's SAIDI from planned outages has been at a stable level of approx 25. Deployment of live line techniques and the use of the backup generator (within practical limitations) has improved NTL's performance to this level over the past five to ten years. Given the topology of the NTL network, improvement beyond this point is unlikely without considerable further expenditure. Performance gains would be low and investment in improvements in unplanned outage performance will yield far greater results.

During 2009, safety issues around live line work with copper conductors led to a ban on live line operations on light copper conductor high voltage lines. Due the prevalence of copper conductor in rural radial feeders, this development is expected to significantly impact reliability performance for planned outages. The planned outage targets have accordingly been revised upwards this year to SAIDI 40, SAIFI 0.28 and CAIDI 140.

- (vi) NTL contractors ceased all live line work on small copper conductors in March 2009 and NTL instituted its new policy subsequent to that date. No live line work was carried out on this asset type in the year ending 31 March 2010 and NTL incurred additional Class B SAIDI minutes as consequence. Estimates in the AMP (see above) suggest this policy change raises NTL's Class B SAIDI by about 15 minutes per annum on average.

d) Customer Communication and Consultation

The requirements for customer communication & consultation in Section 6.1(c) of the Commerce Act (Electricity Line Thresholds) Notice 2004 are set out in the table below.

<p>Test: At least once during the period of 2 years ending 31 March 2006, and at least once during the period of 2 years ending 31 March 2008, a distribution business is to —</p> <ul style="list-style-type: none"> (i) properly advise (or ensure that another person properly advises on its behalf) its customers (or another person that accurately reflects the interests of those customers) about the price-quality trade offs available to them in relation to the goods and services provided by the distribution business; and (ii) consult (or ensure that another person consults on its behalf) with its customers (or another person that accurately reflects the interests of those customers) about the quality of goods and services that they require, with reference to the prices of those goods and services; and (iii) properly consider the views expressed by customers during and after that consultation; and (iv) adequately take these views into account when making its asset management decisions. <p>Result: Network Tasman has met the requirements for customer communication</p>

The customer communication requirements of Section 6 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 were undertaken during the years ended 31 March 2006

and 2008. Therefore no additional customer communication was necessary in the year to 31 March 2010 in order to satisfy these regulatory requirements.

e) Network Tasman SAIDI & SAIFI Policies and Procedures

Network Tasman is required under Section 7(1) (a) (iii) of the Notice to describe the policies and procedures used to record the SAIDI and SAIFI statistics for the assessment period to 31 March 2010. This information is provided in Appendix 9.

4. DISCLAIMER

The information disclosed by Network Tasman Limited in this Threshold Compliance Statement has been prepared solely for the purposes of complying with the requirements of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notices of 2006 and 2009.

The information disclosed relates only to the lines business activities described in the Notice. The Company is involved in other activities that are not required to be reported on under the Notice.

The information has not been prepared for any other purpose than that intended under the Notice and Network Tasman Limited expressly disclaims any liability to any party who may rely on this information for any other purpose.

Dated the 20th Day of May 2010.

AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT

To the readers of the Threshold Compliance Statement of Network Tasman Limited for the assessment period 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 Network Tasman Limited for assessment as at 31 March 2010 and dated 20 May 2010 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

Directors of Network Tasman Limited are responsible for the certification, confirming the compliance or otherwise, of the Threshold Compliance Statement in accordance with the 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 and Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2010

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 2 to 6 and Appendices 1 to 9 of the Threshold Compliance Statement and which relate to:

- the price path threshold set out in clause 5 of the Notice; and
- the SAIDI and SAIFI statistics for the assessment period 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 an assessment of the significant estimates and judgements, if any, made by Network Tasman Limited in the preparation of the Threshold Compliance Statement and an assessment of whether the basis of preparation has been adequately disclosed.

We planned and performed our audit of the Threshold Compliance Statement so as to obtain all the information and explanation which we considered necessary, including for the purpose of obtaining sufficient evidence to give reasonable assurance that the Threshold Compliance Statement is free from material misstatements (whether caused by fraud or error), except that our work was limited in respect of the quality threshold: SAIDI and SAIFI statistics as explained below. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the threshold compliance statement.

AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT
Network Tasman Limited

Basis of Opinion - Quality Threshold: SAIDI and SAIFI Statistics for the Years Ended 31 March 1999, 2000, 2001, 2002 and 2003.

In relation to the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice. We have undertaken procedures to provide reasonable assurance that:

- the amounts and disclosures in the Threshold Compliance Statement relating to those statistics have been correctly taken from the information disclosed by Network Tasman Limited in accordance with the Electricity (Information Disclosure) Regulations 1999; and
- those statistics have been calculated based on the source data provided to us. We have not performed audit procedures on the source data.

Relationship and Interests

We have no relationship with or interests in Network Tasman Limited 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 Network Tasman Limited that, in our professional judgment, may reasonably be thought to impair our independence.

Opinions

Unqualified Opinion

We have obtained all the information and explanations we have required.

Price Path Threshold

In our opinion, having made all reasonable enquiry, to the best of our knowledge the amounts or details set out in the Threshold Compliance Statement relating to the price path threshold set out in clause 5 of the Notice and related information have been prepared in accordance with the Notice, and give a true and fair view of the performance of Network Tasman Limited against that threshold for the assessment period ended on 31 March 2010.

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 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 Network Tasman Limited's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and fairly represent the performance of Network Tasman Limited for the assessment period ended on 31 March 2010;
- 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 Network Tasman Limited in accordance with the Electricity (Information Disclosure) Regulations 1999. Those statistics have been properly calculated based on the unaudited source data provided to us by Network Tasman Limited.

AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT
Network Tasman Limited

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 2010, 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 Network Tasman Limited against those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice for the assessment period ended on 31 March 2010.

Our audit was completed on 20 May 2010 and our qualified and unqualified opinions are expressed as at that date.



PricewaterhouseCoopers
Auckland
20 May 2010

