

NETWORK TASMAN LIMITED
THRESHOLD COMPLIANCE STATEMENT

**Pursuant to the
Commerce Act (Electricity Lines Thresholds) Notice 2003**

For Second Assessment Date 31 March 2004

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1. DIRECTORS CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENTS

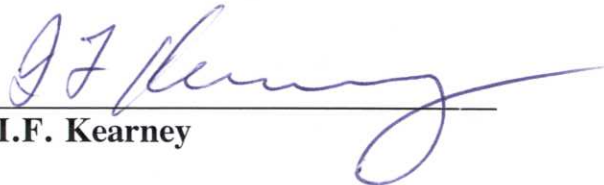
IN ACCORDANCE WITH THE COMMERCE ACT (ELECTRICITY LINES THRESHOLDS) NOTICE 2003.

Section 57(H)a

CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENTS

We, Ian Francis Kearney and Christopher Ian Menzies Turner, 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 statements of Network Tasman Limited and related information, prepared for the purposes of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the requirements of that notice.

SIGNATURES OF DIRECTORS



I.F. Kearney

Date: 18 May 2004



C.I.M. Turner

Date: 18 May 2004

2. PRICE PATH THRESHOLD COMPLIANCE STATEMENT

Network Tasman Limited certifies that:

- a). The audited information attached, including the:
 - price path threshold assessment (Appendix 1 & 2)
 - transmission cost information (Appendix 3)
 - network rates expense information (Appendix 4)
 - network pricing information (Appendix 5)
 - network base quantity information (Appendix 6)has been prepared for the purposes of, and complies with, the requirements of Section 5.1(c) of the Commerce Act (Electricity Lines Thresholds) Notice 2003 and Sections 57G and 57T of the Commerce Act 1986.
- b). The price path threshold assessment (Appendix 1), performed at the second assessment date of 31 March 2004, confirms Network Tasman Limited has complied with the price pathway threshold requirements detailed by the NZ Commerce Commission in Section 5.1(c) of the Commerce Act (Electricity Lines Thresholds) Notice 2003.
- c). The price path calculations, in accordance with the Gazette Notice, include all revenue derived from the supply of the following specified and non-contestable line function services:
 - Electricity conveyance services under Use of Systems Agreements with electricity retailers
 - Electricity conveyance services under Direct Connection Agreements with 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). For the purpose of the price path calculations, pass through costs include:
 - i) Transmission
 - Connection and Interconnection charges
 - EVA Adjustments
 - New investment charges
 - Common quality service charges
 - Loss and constraint rental credits
 - Avoided transmission charges
 - ii) Rates
 - Local authority rates levied on systems fixed assets including lines, cable, equipment and substation land and buildings.
- e). The following items of revenue, derived from non specified and non conveyancing line business activities, have been excluded from the threshold assessment:
 - Interest income
 - Profit 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). Network Tasman Limited does not own or operate any electrical contracting facility nor does it provide any electrical contracting services to electricity consumers on a non-contestable basis. Any charges borne by electricity consumers for network extensions, reinforcements or repairs and maintenance, within Network Tasman Limited's geographical area, are determined in a contestable environment with all work being performed by third parties.

3. QUALITY THRESHOLD COMPLIANCE STATEMENT

Network Tasman Limited certifies that:

- a) The audited information attached including the:
- Interruption duration index (SAIDI) assessment (Appendix 7)
 - Interruption frequency index (SAIFI) assessment (Appendix 7)
 - Documented results demonstrating meaningful engagement with customers concerning quality (Appendix 8)
- has been prepared for the purposes of, and complies with, the requirements of Sections 6.1(a), 6.1(b) and 6.1(e) of the Commerce Act (Electricity Lines Thresholds) Notice 2003 dated 6 June 2003 and Sections 57G and 57T of the Commerce Act 1986.
- b) The quality threshold assessments for SAIDI and SAIFI (Appendix 7) demonstrate that, at the second assessment date of 31 March 2004, Network Tasman Limited has complied with the NZ Commerce Commission's quantitative quality threshold requirements detailed in Sections 6.1(a) and 6.1(b) of the Commerce Act (Electricity Lines Thresholds) Notice 2003.
- c) Network Tasman Limited has complied with the NZ Commerce Commission's qualitative quality threshold requirements detailed in Section 6.1(e) of the Commerce Act (Electricity Lines Thresholds) Notice 2003 concerning the obligation to consult with customers on the available price quality tradeoffs (see Appendix 8).

Dated 18th May 2004

AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT

To the readers of the threshold compliance statement of Network Tasman Limited.

We have examined the attached statement, being a threshold compliance statement in respect of price path and quality thresholds that were prepared by Network Tasman Limited for assessment on 31 March 2004 and dated 18 May 2004 for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Lines Thresholds) Notice 2003 ("the Notice").

Directors' Responsibilities

Clause 7 of the Notice requires the Directors of Network Tasman Limited to prepare certificates that confirm the compliance, or otherwise, of Network Tasman Limited with the thresholds set out in clauses 4, 5 and 6 of that Notice.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the threshold compliance statement certified by the Directors and report our opinion to you.

Basis of Opinion

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the attached threshold compliance statement. It also included an assessment of the significant estimates and judgements, if any, made by the lines business in the preparation of the threshold compliance statement and an assessment of whether the basis of preparation had been adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary, except that our work was limited in respect of the quality (SAIDI and SAIFI) thresholds as explained below. We obtained sufficient evidence to give reasonable assurance that the statements are free from material misstatements, whether caused by fraud or error or otherwise. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statements.

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.

Unqualified Opinions

We have obtained all the information and explanations we have required, in relation to the price path threshold and the quality (customer communication) threshold.

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 prepared pursuant to 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 as required by the Notice against the thresholds set out in the Notice of Assessment on 31 March 2004.

Quality (Customer Communication) Threshold

In our opinion, having made all reasonable enquiry, to the best of our knowledge the quality (customer communication) threshold prepared pursuant to clause 6(1)(c) 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 as required by the Notice against the thresholds set out in the Notice of Assessment on 31 March 2004.

Qualified Opinion

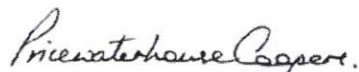
Quality (SAIDI and SAIFI) Threshold

Control over the completeness and accuracy of outage and ICP records prior to being recorded by the Company is limited, and there are no practical audit procedures that we could adopt to confirm independently that all outages and the associated ICP numbers were properly recorded for the purposes of inclusion in the amounts or details set out in the SAIDI and SAIFI quality threshold compliance statements prepared pursuant to clauses 6(a) and 6(b) of the Notice.

In these respects alone we have not obtained all the information and explanations that we have required.

Because of the potential effect of the limitation in the evidence available to us, we are unable to form an opinion as to whether the amounts or details set out in the SAIDI and SAIFI quality threshold compliance statements prepared pursuant to clauses 6(a) and 6(b) of the Notice, and related information has been prepared in accordance with the Notice, and gives a true and fair view of the performance of Network Tasman Limited as required by the Notice against the quality thresholds set out in the Notice of Assessment on 31 March 2004.

Our audit was completed on 18 May 2004 and our unqualified and qualified opinions are expressed as at that date.



PricewaterhouseCoopers
Auckland

18 May 2004

APPENDIX 2.

DETAILS OF NOTIONAL REVENUE (PQi0) AT 1ST AND 2ND ASSEMENT DATES

| Group/Category | | NTL Code | P ₂₀₀₃ Q _{i0} 01/04/2003 to 06/09/2003 | P ₁₂₀₀₄ Q _{i0} 06/09/2003 to 31/03/2004 | |
|---------------------|--|----------------|---|--|---------------------|
| VARIABLE CHARGES | 1&2 | B24 | 3,890,587 | 3,890,587 | |
| | | BDD | 519,598 | 519,598 | |
| | | BOP | 16,581 | 16,581 | |
| | | DDD | 50,169 | 50,169 | |
| | | DST | 5,460,737 | 5,460,737 | |
| | | WSR | 1,155,326 | 1,155,326 | |
| | | I24 | 101,234 | 101,234 | |
| | | IRD | 100,687 | 100,687 | |
| | | NITE | 209,774 | 209,774 | |
| | | LAP | 1,136 | 1,136 | |
| | 1L | DST | 61,805 | 61,805 | |
| | | DWS | 13,207 | 13,207 | |
| | | | | | |
| | 2s | B24 | 11,559 | 11,559 | |
| | | BDD | 61,164 | 61,164 | |
| | | BND | 3,894 | 3,894 | |
| | | BWS | 920 | 920 | |
| | 3.1 | Summer Day | 13,295 | 13,295 | |
| | | Summer Night | 4,839 | 4,839 | |
| | | Winter Day | 21,347 | 21,347 | |
| | | Winter Night | 3,877 | 3,877 | |
| | 3.3 | Summer Day | 373,843 | 373,843 | |
| | | Summer Night | 128,065 | 128,065 | |
| Winter Day | | 831,789 | 831,789 | | |
| Winter Night | | 91,877 | 91,877 | | |
| 3.4 | Summer Day | 22,793 | 22,793 | | |
| | Summer Night | 10,752 | 10,752 | | |
| | Winter Day | 44,832 | 44,832 | | |
| | Winter Night | 6,791 | 6,791 | | |
| FIXED CHARGES | | OUNM | 9,804 | 9,804 | |
| | | CHD | 0 | 0 | |
| | | OSTL | 145,645 | 145,645 | |
| | | OTBX | 44,676 | 44,676 | |
| | 1 | 1A | 3,101,369 | 3,101,369 | |
| | | 1A | 1,104,746 | 1,104,746 | |
| | | 1B | 504,488 | 504,488 | |
| | | 1B | 160,381 | 160,381 | |
| | | 1B | 135,897 | 135,897 | |
| | | 1LFC | 23,488 | 23,488 | |
| | 2 | 2 | 1,231,670 | 1,231,670 | |
| | 2s | 2S | 24,211 | 24,211 | |
| | | 2SFX | 21,000 | 21,000 | |
| | 3.1 | Anytime Demand | 35,637 | 35,637 | |
| | 3.3 & 3.5 | Anytime Demand | 106,003 | 106,003 | |
| | 3.4 | Anytime Demand | 669,368 | 669,368 | |
| | 3 all cats. | Winter Demand | 1,350,877 | 1,350,877 | |
| | G6 | Fixed Charge | 1,506,426 | 1,491,690 | |
| | NEL | Fixed Charge | 1,561,113 | 1,551,347 | |
| | New Connections | CC | 118,703 | 118,703 | |
| | Total Revenue by period - S(PQi0) | | | \$25,067,980 | \$25,043,478 |

APPENDIX 3. TRANSMISSION COST AND REVENUE SUMMARY

| TRANSMISSION COST | | |
|---|---|---------------------------------------|
| TOTAL TRANSMISSION COSTS EXCLUDING LRR | At Year ending March 2004 Budget 2003-04 | Actual Updated 12 May 2004 |
| Pass-through Transmission Costs | 3,023,463 | 2,998,295 |
| NTL Transmission costs retained | 5,135,196 | 5,293,922 |
| Embedded Generators: Avoided Transmission Costs | | 114,651 |
| Total Transmission Costs All GXP's | 8,158,659 | 8,292,218 |

| LOSS RENTAL REBATES (LRR) | | |
|--|------------------|--------------------|
| LRR Directly passed-through | (401,914) | (419,952) |
| Non-pass through - LRR Retained by NTL | (564,176) | (616,497) |
| Total LRR | (966,090) | (1,036,449) |

| TOTAL TRANSMISSION COSTS INCLUDING LRR | | |
|---|------------------|------------------|
| Net Pass-through Transmission Costs | 2,621,549 | 2,578,343 |
| Net Transmission Cost Retained by NTL | 4,571,020 | 4,677,426 |
| Total Net Transmission Costs - All GXP's | 7,192,569 | 7,255,768 |

| | | |
|--|--------------------|--------------------|
| Total Purchases C_T2003 | \$7,192,569 | |
| Total Purchases C_T2004 | | \$7,255,768 |

| TRANSMISSION PASS THROUGH REVENUE | | |
|---|-----------|-----------|
| Pass-through only, EXCLUDING LRR | | |
| Gross Revenue from Pass-through Customers | 3,082,653 | 3,076,189 |
| Pass-through Customers INCLUDING LRR | | |
| Net Revenue from Pass-through Customers | 2,680,739 | 2,656,237 |

APPENDIX 4. LOCAL RATES SUMMARY

| Item | Year Ending | Actual or Budget | Amount |
|---------------------|-------------|--|---------|
| C _R 2003 | March-04 | Budget | \$5,500 |
| C _R 2004 | March-04 | Actual Invoices for year ended 31 March 2004 | \$6,994 |

Note: Rates on Electricity System Assets Only

Appendix 5 - Schedule of NTL Prices

All excluding GST

| Fixed/ Variable | Group/ Category | NTL Code | Price P ₂₀₀₃ 06/09/2003 | Price P ₂₀₀₄ 31/03/2004 | Price Unit | Region (fixed charges) | |
|-----------------------------|--------------------|--------------|---------------------------------------|---------------------------------------|---------------|---------------------------|---------|
| VARIABLE CHARGES | 1&2 | B24 | 5.75 | 5.75 | c/kWh | | |
| | | BDD | 6.45 | 6.45 | c/kWh | | |
| | | BOP | 3.00 | 3.00 | c/kWh | | |
| | | DDD | 4.60 | 4.60 | c/kWh | | |
| | | DST | 4.30 | 4.30 | c/kWh | | |
| | | WSR | 1.60 | 1.60 | c/kWh | | |
| | | I24 | 3.55 | 3.55 | c/kWh | | |
| | | IRD | 3.95 | 3.95 | c/kWh | | |
| | | NITE | 1.40 | 1.40 | c/kWh | | |
| | 1L | LAP | 4.75 | 4.75 | c/kWh | | |
| | | DST | 6.10 | 6.10 | c/kWh | | |
| | | DWS | 2.20 | 2.20 | c/kWh | | |
| | 2s | B24 | 3.80 | 3.80 | c/kWh | | |
| | | BDD | 4.20 | 4.20 | c/kWh | | |
| | | BND | 1.10 | 1.10 | c/kWh | | |
| | | BWS | 1.25 | 1.25 | c/kWh | | |
| | 3.1 | Summer Day | 0.35 | 0.35 | c/kWh | | |
| | | Summer Night | 0.33 | 0.33 | c/kWh | | |
| | | Winter Day | 0.74 | 0.74 | c/kWh | | |
| | | Winter Night | 0.33 | 0.33 | c/kWh | | |
| | 3.3 & 3.4 | Summer Day | 1.11 | 1.11 | c/kWh | | |
| | | Summer Night | 1.01 | 1.01 | c/kWh | | |
| | | Winter Day | 3.44 | 3.44 | c/kWh | | |
| | | Winter Night | 1.01 | 1.01 | c/kWh | | |
| 3.5 | Summer Day | 0.80 | 0.80 | c/kWh | | | |
| | Summer Night | 0.80 | 0.80 | c/kWh | | | |
| | Winter Day | 2.50 | 2.50 | c/kWh | | | |
| | Winter Night | 0.80 | 0.80 | c/kWh | | | |
| FIXED CHARGES | 0 | 0UNM | 34.0 | 34.0 | c/icp per day | All GXP | |
| | | CHD | 0.0 | 0.0 | nil | All GXP | |
| | | 0STL | 28.39 | 28.39 | c/W/yr | All GXP | |
| | | 0TBX | 90 | 90 | c/day | All GXP | |
| | 1 | 1A | 45.00 | 45.00 | c/icp/day | Stoke | |
| | | 1A | 45.00 | 45.00 | c/icp/day | Motueka | |
| | | 1B | 52.00 | 52.00 | c/icp/day | Motupipi | |
| | | 1B | 52.00 | 52.00 | c/icp/day | Murchison | |
| | | 1B | 52.00 | 52.00 | c/icp/day | Kikiwa | |
| | | 1LFC | 15.0 | 15.0 | c/icp/day | All GXP | |
| | 2 | 2 | 14.77 | 14.77 | \$/kVA/pa | All GXP | |
| | | 2s | 2S | 24.96 | 24.96 | \$/kVA/pa | All GXP |
| | | | 2SFX | 3,000 | 3,000 | \$/icp/yr | All GXP |
| | 3.1 | Anytime | 16.56 | 16.56 | \$/kVA/pa | All GXP | |
| | | 3.3 & 3.5 | Anytime | 23.16 | 23.16 | \$/kVA/pa | All GXP |
| | 3.4 | | Anytime | 24.72 | 24.72 | \$/kVA/pa | All GXP |
| | 3 All Cats | Winter | 45.57 | 45.57 | \$/kVA/pa | All GXP | |
| | G6 NEL | | 1,506,426 | 1,491,690 | Annual Charge | Stoke | |
| | | | 1,561,113 | 1,551,347 | Annual Charge | Stoke | |
| | New Connections | CC | 5.170 | 5.170 | \$/kVA-km | All GXP | |

New Connection Charges

To 31 March 2003

| | |
|--------------------------|-----------|
| Total Revenue for Year: | \$118,701 |
| Total km-kVA: | 22,960 |
| Average Price \$/km-kVA: | 5.170 |

Excluding GST

APPENDIX 6. Base Quantities (Q_{i0}) as at 31 March 2003

As at 31 March 2003

| Fixed/ Variable | Group/Category | NTL Code/ description | Quantity Qi0 | Quantity Unit |
|-----------------------------|----------------|--------------------------|---------------------|---------------|
| VARIABLE CHARGES | 1&2 | B24 | 67,662,386 | kWh |
| | | BDD | 8,055,784 | kWh |
| | | BOP | 552,700 | kWh |
| | | DDD | 1,090,623 | kWh |
| | | DST | 126,993,886 | kWh |
| | | WSR | 72,207,890 | kWh |
| | | I24 | 2,851,670 | kWh |
| | | IRD | 2,549,032 | kWh |
| | | NITE | 14,983,869 | kWh |
| | LAP | 23,914 | kWh | |
| | 1L | DST | 1,013,195 | kWh |
| | | DWS | 600,311 | kWh |
| | 2s | B24 | 304,190 | kWh |
| | | BDD | 1,456,297 | kWh |
| | | BND | 353,989 | kWh |
| | | BWS | 73,568 | kWh |
| | 3.1 | Summer Day | 3,798,540 | kWh |
| | | Summer Night | 1,466,453 | kWh |
| | | Winter Day | 2,884,687 | kWh |
| | | Winter Night | 1,174,881 | kWh |
| | 3.3 & 3.4 | Summer Day | 33,679,549 | kWh |
| | | Summer Night | 12,679,678 | kWh |
| | | Winter Day | 24,179,912 | kWh |
| | | Winter Night | 9,096,718 | kWh |
| 3.5 | Summer Day | 2,849,108 | kWh | |
| | Summer Night | 1,344,024 | kWh | |
| | Winter Day | 1,793,286 | kWh | |
| | Winter Night | 848,882 | kWh | |
| FIXED CHARGES | 0 | 0UNM | 79 | icp |
| | | CHD | 59 | icp |
| | | OSTL | 513,014 | W |
| | | 0TBX | 136 | icp |
| | 1 | 1A | 18,882 | icp |
| | | 1A | 6,726 | icp |
| | | 1B | 2,658 | icp |
| | | 1B | 845 | icp |
| | | 1B | 716 | icp |
| | | 1LFC | 429 | icp |
| | 2 | 2 | 83,390 | kVA |
| | 2s | 2S | 970 | kVA |
| | | 2SFX | 7 | icp |
| | 3.1 | Anytime | 2,152 | kVA |
| | 3.3 & 3.5 | Anytime | 4,577 | kVA |
| | 3.4 | Anytime | 27,078 | kVA |
| 3 All Cats | Winter | 29,644 | kVA | |
| G6 | | | Annual Fixed Charge | |
| NEL | | | Annual Fixed Charge | |
| New Connections | CC | 22,960 | kVA-km | |

Appendix 6 Note: Consolidation of G1&2 Variable tariffs

NTL has reduced the number of variable tariffs for standard Group 1&2 customers by:

1. Making variable tariff rates for Group 1 and 2 the same. Eg the B24 rate for Group 1 and 2 is now equal, so the above quantity is the sum of what was disclosed for B24 Group 1 and B24 Group 2.
2. Consolidating all night tariffs into a single tariff (NITE) and rate, and the Business and Domestic water heating tariffs to a single rate (WSR).

Current Tariffs for Group 1&2.

| | | | | |
|------------------|-----|--------------------|-------------|--|
| VARIABLE CHARGES | 1&2 | B24 | 67,662,386 | |
| | | BDD | 8,055,784 | |
| | | BOP | 552,700 | |
| | | DDD | 1,090,623 | |
| | | DST | 126,993,886 | |
| | | WSR | 72,207,890 | was: BWS, DWS, now is WSR for both Group 1&2 |
| | | I24 | 2,851,670 | |
| | | IRD | 2,549,032 | |
| | | NITE | 14,983,869 | was: BND,BNO,DND,DNO,IRN for both Group 1&2 |
| | | LAP | 23,914 | |
| | | 296,971,753 | | |

Previous tariff schedule of Quanties consolidated to above table.

| Price | Group | Code | Quantity | unit | New Code |
|------------------|-----------|-----------|--------------------|------|----------|
| VARIABLE CHARGES | 1 | B24 | 20,021,702 | kWh | B24 |
| | | BDD | 655,101 | kWh | BDD |
| | | BND | 418,402 | kWh | NITE |
| | | BNO | 503,881 | kWh | NITE |
| | | BOP | 145,973 | kWh | BOP |
| | | BWS | 2,492,690 | kWh | WSR |
| | | DDD | 532,756 | kWh | DDD |
| | | DND | 345,051 | kWh | NITE |
| | | DNO | 7,576,185 | kWh | NITE |
| | | DST | 123,645,084 | kWh | DST |
| | | DWS | 64,031,861 | kWh | WSR |
| | | I24 | 1,378,942 | kWh | I24 |
| | | IRD | 190,191 | kWh | IRD |
| | | IRN | 124,945 | kWh | NITE |
| | LAP | 23,914 | kWh | LAP | |
| | 2 | B24 | 47,640,684 | kWh | B24 |
| | | BDD | 7,400,683 | kWh | BDD |
| | | BND | 3,484,943 | kWh | NITE |
| | | BNO | 714,238 | kWh | NITE |
| | | BOP | 406,727 | kWh | BOP |
| BWS | | 4,670,060 | kWh | WSR | |
| DDD | | 557,867 | kWh | DDD | |
| DND | | 344,364 | kWh | NITE | |
| DNO | | 309,228 | kWh | NITE | |
| DST | | 3,348,802 | kWh | DST | |
| DWS | | 1,013,279 | kWh | WSR | |
| I24 | | 1,472,728 | kWh | I24 | |
| IRD | 2,358,841 | kWh | IRD | | |
| IRN | 1,162,632 | kWh | NITE | | |
| LAP | 0 | kWh | LAP | | |
| Total kWh | | | 296,971,753 | | |

APPENDIX 7. SAIDI & SAIFI Quantitative Assessment

| SAIDI | | 1999 | 2000 | 2001 | 2002 | 2003 | Average | 2004 |
|----------------|-----|-------|-------|-------|------|-------|---------|-------|
| Network Tasman | | | | | | | | |
| SAIDI Data | B&C | 268.8 | 183.4 | 105.1 | 70.9 | 109.0 | 147.4 | 121.7 |

TEST SAIDI₂₀₀₄ ≤ $\left\{ \frac{\text{SAIDI}_{1999} + \text{SAIDI}_{2000} + \text{SAIDI}_{2001} + \text{SAIDI}_{2002} + \text{SAIDI}_{2003}}{5} \right\}$

121.7 ≤ 147.4

Conclusion : Threshold not breached

| SAIFI | | 1999 | 2000 | 2001 | 2002 | 2003 | Average | 2004 |
|----------------|-----|------|------|------|------|------|---------|------|
| Network Tasman | | | | | | | | |
| SAIFI Data | B&C | 3.79 | 2.67 | 1.63 | 1.01 | 1.51 | 2.12 | 1.22 |

TEST SAIFI₂₀₀₄ ≤ $\left\{ \frac{\text{SAIFI}_{1999} + \text{SAIFI}_{2000} + \text{SAIFI}_{2001} + \text{SAIFI}_{2002} + \text{SAIFI}_{2003}}{5} \right\}$

1.22 ≤ 2.12

Conclusion : Threshold not breached

Note: The SAIFI & SAIDI calculations above are based on the average number of connections and differ marginally from previous NTL disclosures that were based on year end connection numbers

Appendix 8

Network Tasman Limited Consumer Communication Report

Section 6.1 (e) - Commerce Act (Electricity Line Thresholds) Notice 2003

1. Introduction

Pursuant to Section 6.1(e) of the Commerce Act (Electricity Line Thresholds) Notice 2003, each lines company is required to consult with their customers, by 31 March 2004, on the options of price and service quality available to those customers and to take those customers views into account when making asset management decisions.

A definition of service quality was not included in the Gazette Notice and the Commerce Commission has not provided a definition in any other publication. That being the case, for the purposes of section 6.1(e), NTL defines service quality by reference to Section 4 of the company's Asset Management Plan ("AMP"). In particular service quality is assumed to concern those service attributes outlined in Sections 4.1 (Supply Quality) & 4.2 (Supply Reliability) of NTL's AMP. The AMP is available on the company's web site <http://www.networktasman.co.nz/>.

2. NZ Commerce Commission Consultation requirements

The customer consultation requirements laid down by the NZ Commerce Commission are defined in Section 6.1(e) of the Notice, and broadly require a lines company to:

- Properly advise its customers about the price and quality trade-offs available;
- Consult with those customers on these trade-offs;
- Properly consider the views expressed by customers;
- Take those views into account when making asset management decisions.

The Notice requires these activities to be undertaken between publication date (6 June 2003) and second assessment date (31 March 2004). While NTL's direct consultation with major customers occurred within this specified time, other activities required to support compliance are part of ongoing annual processes, some of which necessarily occurred outside the specified period.

3. Limitations of consultation requirements

Public Good Attributes of Supply Quality

The nature of electricity networks means, in many circumstances, it is not possible to offer changes in service quality for one customer without altering supply quality to other customers. Delivery of higher (lower) service quality in response to a consumer's demand may lead to over (under) delivery of quality attributes to other consumers. Supply quality on electricity networks exhibits strong public good (rather than private good) characteristics and therefore consultations with individual customers suggesting unique price / quality choices on the core or shared network are misleading. Such "offers" become progressively more unrealistic and misleading where customers are located outside the meshed network and are supplied via long radial feeders.

In common with other goods with strong public good attributes, making collective choices about the appropriate level service quality on the shared network is

problematic. Given the public good attributes inherent in network service quality, a mixture of regulated minimum performance standards and contractual commitments with retailers, benchmarked to good industry practice, function as key proxies for consumer choice relating to quality on the core or shared network.

NTL Contractual Obligations

Contractually NTL's quality obligations are determined in Use of Systems Agreements with retailers. Under these contractual arrangements NTL supplies line function services in bulk, at wholesale level, to its primary customers, the retailers. NTL has no direct relationship with the majority of consumers under these arrangements. With the exception of four customers supplied under conveyancing arrangements, the remaining 33,332 consumers connected to NTL's distribution network are supplied under Use of Systems Agreements with retailers. The Commerce Commission's consultation requirements under Section 6.1(e) are inconsistent and at odds with NTL's contractual obligations for the wholesaling of line function services.

4. NTL Consultation Methodology

General Approach

It is not practical to address the requirements of section 6.1(e) solely through a process of direct consultation with consumers. The Commerce Commission (see Sections 93 to 96 of the Targeted Control Regime Threshold Decisions document dated 1 April 2004) has indicated that the lines companies are not expected to consult with large numbers of mass-market consumers.

Network Tasman considers that engaging directly with its largest consumers, and using several reasonable proxies for the mass market fulfills the consultation requirements of Section 6.1(e).

On NTL's network the largest customer plus the 31 consumers involved in the direct consultation process consume about 36% of the 555 GWh of electricity conveyed annually across NTL's distribution system. Each of these 31 consumers plus the three major retailers operating on NTL's distribution network under Use of Systems Agreements were surveyed by an independent party, Utility Consultants Ltd of Hamilton. The survey was carried out during March 2004 and the consumers were questioned about both their satisfaction with the current levels of service quality and their interest in paying amended line charges for a different level of service quality. In this process the price quality tradeoff aspect was put forward in broad terms to gauge the general level of support amongst these customers for NTL developing alternative and detailed price / service quality offers.

NTL has used a range of processes to provide the necessary proxies for assessing and responding to mass market price / quality demands. These processes include:

- Adherence to contractual obligations with retailers;
- Adherence to regulatory obligations relating to service quality;
- Annual negotiation of the Statement of Corporate Intent (SCI) with the NT Trust;
- NTL benchmarking activities;
- Periodic independent 3rd party review;
- NTL direct responses to customer queries concerning quality and price;
- NTL design and offer of line tariff options.

5. Direct Consultation Processes

a) General Observations from Direct Consultation

The survey identified the following general themes:

- ❑ Most consumers are happy with their supply reliability at current prices, although several have commented that reliability has only become noticeably better in recent years
- ❑ There is a reasonable degree of acceptance that the occasional power outage is inevitable and a simple fact of life.
- ❑ Supply reliability perceptions appear to be formed relative to the type of business activity. Those with more critical processes have higher sensitivity to reliability and quality. Those with less critical and more flexible processes held lower quality expectations and were more tolerant of outages. Some, but not all, customers in the first category would consider an opportunity to pay more for quality enhancements so further engagement is warranted. Most in the second category were satisfied with the current level of service quality and were not interested in alternatives;
- ❑ It is reasonable to generalise that demand not only for reliability but also waveform purity and voltage stability is increasing as IT proliferates;
- ❑ A number of consumers commented on their experiences of electrical spikes, surges & sags at their premises but at the same time demonstrated a low level of understanding regarding the key sources of, and responsibly for, these disturbances. Consumers were, in some instances, unaware their own plant or neighbouring plant such as arc furnaces, welders and big motors may in fact be the cause of disturbances rather than the network itself. However these concerns establish a need to understand and identify the level and sources of these disturbances, particularly in industrial areas;
- ❑ A further key theme (common amongst network companies) is the growing sensitivity to restoration times as food industries make the transition from simple frozen storage of meat, fruit and vegetables etc. to controlled humidity chilling;
- ❑ Adverse comments about price from some consumers were not entirely unexpected given the incumbent retailer in the region announced 12 –14% increases in the delivered price of electricity two weeks before the survey took place. Total delivered electricity bills rather than the component parts of the bill influenced some consumer's perceptions about the price / quality trade off.

b) Consultation with NTL's Largest Consumer

The largest consumer (by an order of magnitude) operates a lumber plant that consumes about 135GWh of electricity per year with a site maximum demand of about 23 MW. The site is supplied via a single 33kV line from the Stoke GXP through to a zone substation on the consumer's industrial site.

NTL has negotiated a number of supply / quality enhancements with the consumer under various pricing arrangements over recent years. NTL also offered to increase supply security under two fully costed and priced alternatives. After considering the most likely contingent events, the likely length of any outage and the impact of breaks in supply on their business, the customer declined both options and instead elected to continue with their existing level of security and price.

c) Individual Consumer responses to consultation

| Customer | Annual kWh | Response |
|----------------------------|------------|--|
| 1. Food Processor | 12,400,000 | Reasonably happy with reliability, but would certainly be interested in additional reliability given the critical nature of their food processing operation. |
| 2. Food Processor | 6,922,400 | Have had some recent outages and that additional reliability would be useful but uptake would be subject to price. |
| 3. Timber Processor | 5,888,000 | Generally happy with existing reliability. May consider additional reliability, depending on costs. |
| 4. Cold Storage | 4,717,400 | Happy with reliability over the last 10 to 15 years, unplanned outages have not been a problem, but could be interested in additional reliability if the price was right. |
| 5. Super Market | 2,171,300 | Supply reliability has improved markedly over the last year or two. Have battery and generator back up on site, so wouldn't be interested in paying for additional reliability from Network Tasman. |
| 6. Food Processor | 2,040,200 | Happy enough with reliability of existing supply with no outage for the last 3 years. Might be prepared to pay a high price for additional reliability due to nature of food processing operations. |
| 7. Timber Processor | 16,268,500 | Happy with existing reliability, and believes that alternative supply options are already available within the existing pricing. |
| 8. Timber Processor | 1,218,600 | No problems with existing supply, and existing supply reliability is sufficient so wouldn't be interested in any specific improvements.. |
| 9. Food Processor | 5,300,000 | Didn't respond in time for inclusion in this exercise. |
| 10. Supermarket | 1,061,800 | Happy enough with existing reliability apart from a contractor excavating a cable. Would however consider additional reliability enhancements subject to price. |
| 11. Timber Processor | 3,212,800 | Happy with existing reliability, but recognises that their supply is vulnerable. Would certainly consider additional reliability depending on price. |
| 12. Beverage Producer | 829,600 | Had a few outages – things like cars hitting poles – but generally very happy with supply reliability. Would consider additional reliability subject to cost. |
| 13. Council | 2,263,600 | Didn't respond in time for inclusion in this exercise. |
| 14. Aged Care | 568,600 | Happy with existing reliability. Due to use of gas for cooking and heating and 24 hour emergency lighting, would not be interested in paying for additional reliability from Network Tasman. |
| 15. Horticulture Processor | 541,100 | Didn't respond in time for inclusion in this exercise. |
| 16. Aged Care | 516,000 | Improvement in supply reliability noticeable of late. Already have emergency lighting and gas heating and cooking, so wouldn't be interested in additional reliability. |
| 17. College | 495,300 | Didn't respond in time for inclusion in this exercise. |
| 18. Civil Contractor | 1,040,000 | Happy with reliability, but wouldn't be interested in additional reliability as nature of operations at this site are tolerant of minor and infrequent breaks in supply. |
| 19. Timber Processor | 2,213,000 | Have recently benefited from region wide reinforcement investment and are happy with existing reliability, but would certainly be interested in considering additional reliability when second feeder is commissioned. |
| 20. College | 440,700 | Happy with existing reliability now pole fuse problems rectified, but given proliferation of PC's might be interested in additional reliability depending on cost. |
| 21. Timber Processor | 438,150 | No problem with outages, so would not be interested in additional reliability. |

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|---------------------------------|-----------|---|
| 22. Foundry | 395,7000 | Happy with existing reliability, but would be interested in additional reliability if the price was acceptable. |
| 23. Tourism Facility | 389,900 | Supply reliability reasonably good – have the odd outage due to trees, birds or cars hitting the network . Has a stand-by generator so wouldn't be interested in paying for additional reliability. |
| 24. Metal Industry | 355,700 | Reliability is okay, so wouldn't be interested in additional reliability. |
| 25. Hospital | 351,000 | Declined to participate |
| 26. Viticulture | 330,800 | Haven't had any reliability problems to date. Might be interested in additional reliability if the price was acceptable. |
| 27. Timber Processor | 264,800 | Good supply reliability and accepts there will be occasional unavoidable interruptions., Might be interested in additional reliability however cost would be a key factor. |
| 28. Accommodation | 250,000 | Happy with existing reliability, so wouldn't be interested in additional reliability. |
| 29. Council | 2,242,000 | Didn't respond in time for inclusion in this exercise. |
| 30. National Distributor | 200,000 | No problems with existing reliability. Operations not critical enough to warrant paying for additional reliability. |
| 31. Mining | 125,721 | Happy with existing reliability. Would be interested in additional reliability, but it would need to provide a no-break supply. |

6. Indirect Consultation Processes using Mass market proxies

NTL has adopted the following proxies to ascertain and monitor price / quality demands and concerns of mass market consumers:

- a). NTL Statement of Corporate Intent
- i) NTL's shareholder, the Network Tasman Trust ("NT Trust"), is elected by and accountable to NTL consumers. The NT Trust is consulted annually in respect of the company's SCI performance measures. The SCI includes a mix of price, quality and financial performance commitments that are negotiated annually with Trustees. These commitments include:
- a set of specific forward-looking reliability targets for SAIDI, SAIFI, CAIDI, faults per 100km of line and percentage of faults not restored within 3 hours. These targets carry through to and become key drivers in the AMP;
 - principles and goals used in establishing line charges;
 - specific financial return targets relating to earnings before discount and tax and network cost levels;
 - specific targets for line charge discounts and trust dividends.

The NT Trust, as consumer representative, must satisfy itself that these targets and the reported trends in reliability are reasonable and acceptable. If a significant number of quality complaints or demands for higher service levels were being received from the mass-market customers, the Trustees of NT Trust would not accept and sign off the reliability targets in the SCI. A renegotiation of the quality targets would necessarily involve a concurrent renegotiation of some or all of the financial, line pricing, discount and dividend targets.

- ii) Utility Consultants questioned the Chairman of Trustees of NT Trust regarding quality of supply and consumer concerns. The discussions

confirmed that few, if any customer complaints about supply quality were being received by trustees.

b). Contractual Agreements with Retailers

- i) NTL has negotiated Use of Systems Agreements with the electricity retailers operating on its distribution network. These agreements:
- specify both the price and quality of services to be offered by NTL;
 - provide for information to be supplied by NTL to retailers so quality performance can be monitored;
 - provide for penal payments to be made to retailers where NTL fails to meet stipulated levels of service quality;
 - provide for periodic renegotiation of the terms of the agreement.
- ii) Utility Consultants surveyed the three major retailers operating on NTL's system to identify specific issues relating to supply quality for end-use mass-market consumers. Under Use of Systems Agreements retailers undertake bulk purchases of network services at agreed levels of price and quality and then on sell them to consumers. Effectively retailers have established themselves as advocates for mass-market consumers when interfacing with distributors. Unfortunately attempts at entering discussions concerning supply quality with retailers proved unworkable. Contact Energy does not specifically get involved in aspects of network reliability in their retail activities, Meridian Energy does not record or monitor details concerning supply quality, and TrustPower has insufficient customers on NTL's system to warrant keeping such records (which it does in areas where it is the incumbent).

c). NTL Response to Direct Approaches from Consumers

When requested, NTL provides monitoring information and suggests solutions to consumers where their supply capacity becomes constrained and / or where voltage problems occur. Additionally NTL provides power factor advice and monitoring information to a number of larger consumers. The information enables consumers to make their own choices about some attributes of service level and the cost they pay for those attributes.

d). Line Tariff Options

NTL offers consumers a range of line tariff options that have different prices for alternative service levels. These tariffs provide for usage at anytime, night only, day only, storage water heating, off-peak commercial, irrigation and local authority pumping. Provided retailers fully reflect these pricing options through to their customers, NTL consumers have some opportunity to self select the price / service tradeoffs that best suit their particular needs.

e). Benchmarking

- i) NTL reviews and benchmarks its reliability, financial performance and pricing annually. Performance gaps have been identified and improvement plans implemented. New capital works, live line maintenance and greater segmentation of the network have been introduced. Since this program was put in place NTL's overall SAIDI performance has improved by over 50% whilst consumers enjoyed network pricing that remained stable in nominal terms. Effectively over the last 6 years NTL consumers have enjoyed falling real line prices while reliability outcomes have improved

significantly. A number of the consumers surveyed commented on the noticeable improvement in reliability. NTL is committed to this program of continuous quality improvement while maintaining stable line prices.

ii) NTL uses a “balanced scorecard” approach to running and monitoring the network business that is closely linked to the SCI and AMP targets. Outcomes are reported in the form of a cobweb diagram highlighting NTL’s performance across a number of critical measures and makes comparison against best quartile data for the whole industry. The cobweb analysis has been a feature of NTL’s internal and external financial reporting. NTL aims to balance price, costs and returns against supply reliability, all at industry best quartile levels. This approach ensures reliability is not compromised in efforts to achieve low prices and low costs while earning acceptable levels of return. Additionally NTL’s beneficial trust ownership structure means customers benefit from both improved financial returns and investment in reliability improvement.

iii) The benchmarking process is carried out annually and provides key input into the development of the future pricing, financial and reliability goals that are to be incorporated in both the SCI and AMP.

f). Independent Review of Network Security

During the 2003-04 year NTL undertook a review of its network security standards. Independent external expert advice was sought to ascertain and specify industry best practice for networks of similar configuration. NTL’s existing security criteria and standards were by and large re-confirmed through this process. These security standards are disclosed in the AMP and are central to the AMP process.

7 Processes for acting on these responses

NTL has adopted the following processes for acting on customer responses.

- Asset Management Planning (AMP)
 - The AMP retains as its key business objective the continued delivery and improvement of network service quality. This is consistent with NTL’s UOSA commitments and is thus broadly aligned with customer expectations concerning reliability and price;
 - The AMP has been modified to include the customer consultation phase in all major decisions concerning capacity and supply quality;
 - Both the direct and indirect consultation processes form part of the NTL’s information systems providing key data inputs into the asset management process;
- NTL will review the feasibility and practicality of developing tailored price / quality alternatives for those consumers who expressed an interest in different service levels in the survey;
- As a consequence of the survey NTL will further investigate power quality issues and provide customers with additional information concerning aspects of power quality and power factor matters;
- NTL will continue periodic dialog with its largest customers to ensure that their views on supply security are taken into account;

- NTL will continue to constructively respond to consumer concerns about voltage, security, reliability and capacity constraints;
- NTL will continue to offer a selection of optional line tariffs that allows consumers to choose service levels and pricing that best meets their needs, provided retailers reflect these choices through to their customers;
- NTL will continue to meet its regulatory obligations relating to supply quality;
- NTL will continue to meet its contractual quality obligations specified in Use of Systems Agreements with retailers and will respond constructively to retailers concerns regarding supply quality.

18th May 2004