



Price Threshold Compliance Statement

**First Assessment
as at 6 September 2003**

Issued: 22 October 2003

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Introduction

This Price Threshold Compliance Statement (the Statement) has been prepared by Orion New Zealand Limited (Orion) to demonstrate its compliance with the Commerce Act (Electricity Lines Thresholds) Notice 2003 (the Notice).

The objective of the Statement is to confirm that there has been no increase in Orion's notional revenue from electricity delivery services as calculated in accordance with the Notice:

- between 8 August 2001 and the publication date (6 June 2003), and
- between the publication date and the first assessment date (6 September 2003).

Orion confirms that:

- Orion's notional revenue from electricity delivery services at 6 September 2003 does not exceed its minimum notional revenue which existed at any time between 8 August 2001 and 6 June 2003 inclusive, and
- Orion's notional revenue at any time between 7 June 2003 and 6 September 2003 inclusive does not exceed its notional revenue at 6 June 2003.

Summary of Price Path Threshold Calculation

Clause 5 (1) (a): requires the left hand side (LHS) to not exceed the right hand side (RHS) in the following expression:

$$\sum P_{i,2003} Q_{i0} - C_{T2003} - C_{R2003} \leq \sum P_{i,0} Q_{i0} - C_{T2002} - C_{R2002}$$

with LHS = notional revenue at the first assessment date, 6 September 2003.

and RHS = minimum notional revenue at any time during the period commencing 8/08/2001 and ending on 6/06/2003.

Term	Definition	Value (\$000s)	Appendix reference
i	denotes each price pertaining to every specified service.		2
$P_{i,2003}$	the i^{th} price at the first assessment date, 6 September 2003. Orion's prices from 1 April 2003 to 31 March 2004 apply, the period during which the first assessment date, 6 September 2003 falls.		2
Q_{i0}	base quantity corresponding to the set of prices for the year ended 31 March 2003. These are Orion's chargeable quantities budgeted for the year ended 31 March 2003.		1
C_{T2003}	the sum of transmission charges budgeted for the year ended 31 March 2004.	35,100.0	3
C_{R2003}	the sum of rates budgeted for the year ending 31 March 2004.	1,966.1	4
$\sum P_{i,0} Q_{i0}$	the notional delivery revenue at any time between the period 8 August 2001 and 6 June 2003. Results are: <u>At prices applying during</u>		
	1/04/01 to 31/03/02	131,001.5	1
	1/04/02 to 31/03/03	128,913.6 = minimum	1
	1/04/03 to 31/03/04	129,035.2	1
<i>First reference date</i>	the date during the period commencing on 8/08/01 and ending on 6/06/03 that results in the lowest value of notional revenue. This corresponds with Orion's prices by financial years during 1/04/01 to 31/03/04. For Orion, this reference date is any date during period 1/04/02 to 31/03/03 when the minimum notional revenue occurred.		
C_{T2002}	the sum of actual or budgeted transmission charges for the year ended 31 March that includes the first reference date. Orion's transmission charges for the year ended 31 March 2003 were :	35,040.0	3
C_{R2002}	the sum of any actual or budgeted rates for the year ending 31 March that includes the first reference date. Orion's rates for year ended 31 March 2003 were:	1,611.2	4

Application of expression:

$$\begin{aligned} \text{LHS} &= \sum P_{i,2003} Q_{i0} - C_{T2003} - C_{R2003} \\ &= 129,035.2 - 35,100.0 - 1,966.1 \\ &= 91,969.1 \end{aligned}$$

$$\begin{aligned} \text{and RHS} &= \sum P_{i,0} Q_{i0} - C_{T2002} - C_{R2002} \\ &= 128,913.6 - 35,040.0 - 1,611.2 \\ &= 92,262.4 \end{aligned}$$

Hence, as LHS < RHS, Orion complies with 5 (1) (a).

Clause 5 (1) (b): requires the LHS to not exceed the RHS in the following expression:

$$\sum P_{i, 2003} Q_{i0} \leq \sum P_{i,0} Q_{i0}$$

with LHS = notional revenue at any time during the period 7 June 2003 to 6 September 2003 inclusive.
and RHS = notional revenue at the publication date, 6 June 2003.

Term	Definition	Value (\$000s)	Appendix reference
i	denotes each price pertaining to every specified service.		2
<i>Second reference date</i>	any date commencing 7/06/03 and ending on 6/09/03 that results in the highest value being assigned to notional revenue for that period. Orion's delivery prices effective from 1 April 2003 were unchanged during this period. Hence, notional revenue is unchanged during this period.	129,035.2	1
$P_{i, 2003}$	the i^{th} price at the 2nd reference date. Orion's prices from 1 April 2003 to 31 March 2004 apply.		2
$P_{i,0} =$	the i^{th} price at the publication date, 6 June 2003. Orion's prices from 1 April 2003 to 31 March 2004 apply.		2
$Q_{i0} =$	base quantity corresponding to the set of prices for the year ended 31 March 2003. These Orion's chargeable quantities budgeted for the year ended 31 March 2003.		1

Application of expression:

$$\begin{aligned} \text{LHS} &= \sum P_{i, 2003} Q_{i0} \\ &= 129,035.2 \end{aligned}$$

1

$$\begin{aligned} \text{and RHS} &= \sum P_{i,0} Q_{i0} \\ &= 129,035.2 \end{aligned}$$

1


Hence, as LHS = RHS, Orion complies with 5 (1) (b).

FORM OF CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

We, Peter Rae, and Craig David Boyce, being directors of Orion New Zealand Limited, certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Orion New Zealand Limited, and related information, prepared for the purposes of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the requirements of that notice.



Peter Rae



Craig David Boyce

Date: 22 October 2003



Audit New Zealand

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE THRESHOLD COMPLIANCE STATEMENT AS AT 6 SEPTEMBER 2003 OF ORION NEW ZEALAND LIMITED

We have examined the attached threshold compliance statement (the "Statement") in respect of a price path threshold that was prepared by Orion New Zealand Limited for assessment on 6 September 2003 and dated 22 October 2003 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(1)(a) of the Notice requires the Directors of Orion New Zealand Limited to prepare a Statement that reports the Orion New Zealand Limited's compliance, or otherwise, with the thresholds set out in clauses 4, 5 and 6 of that Notice.

Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 and clause 7(1)(b) of the Notice require the Auditor-General to examine the Statement. It is the responsibility of the Auditor-General to express an independent opinion on the Statement prepared by the Directors and report that opinion to you.

The Auditor-General has appointed K J Boddy of Audit New Zealand to undertake the examination.

Basis of Opinion

Our examination included reviewing, on a test basis, evidence relevant to the amounts and disclosures in the attached Statement. It also included assessment of the significant estimates and judgements, if any, made in the preparation of the Statement and assessment of whether the basis of preparation had been adequately disclosed.

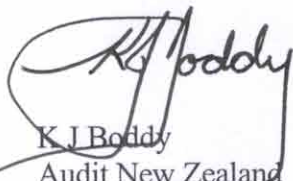
We planned and performed our examination so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the Statement is free from material misstatements, whether caused by fraud or error or otherwise. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Statement.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Orion New Zealand Limited.

Unqualified Opinion

We have obtained all the information and explanations we have required. In our opinion, having made all reasonable enquiry, to the best of our knowledge, the attached threshold compliance statement of Orion New Zealand Limited, and related information has been prepared in accordance with the Notice, and gives a true and fair view of the performance of Orion New Zealand Limited as required by the Notice against the threshold set out in the Notice for assessment on 6 September 2003.

Our examination was completed on 23 October 2003 and our opinion is expressed as at that date.



K. J. Boddy

Audit New Zealand

On behalf of the Auditor-General

Christchurch, New Zealand

23 October 2003



Appendix 2:

Summary of changes to Orion's published delivery prices since 1 April 2001 and delivery price schedules for period 1 April 2001 to 31 March 2004

Price schedule period

Main changes to previous prices

- Reduced number of time intervals for capacity prices to two (working weekday & night/weekend)
 - Transmission prices generally reduced
- 1 April 2002 to 31 March 2003
- Irrigation special discount line price increased (i.e. discount reduced)
 - Irrigation special discount transmission price increased (change to Transpower's methodology)
 - Major customer connection assessed capacity transmission component reduced.
- 1 April 2003 to 31 March 2004
- Irrigation special discount line price increased (i.e. discount reduced).



Delivery Prices

All prices are net, excluding GST

Applicable from 1 April 2001.

	Line	Transmission	Delivery
General Connections			
Estimated number of connections:			
Standard	168,150		
Outside Lighting	36,000		
Fixed			
Outside Lighting (per connection)	10.0	-	10.0c/day
Peak (applied to peak loadings derived from measurements at Grid Exit Points):			
Zone A (winter-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Zone B (summer-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Note: Zone A is the area supplied by Addington, Arthur's Pass, Bromley, Castle Hill, Coleridge, Islington, & Papanui GEPs. Zone B is the area supplied by Hororata & Springston GEPs.			
Other			
Rebate for power factor correction at irrigation connections:	\$(23.46)/kVA/yr		\$(23.46)/kVA/yr
On application, a discount is available to retailers supplying irrigation connections in Orion's Zone B. This discount is available for a limited period and certain conditions apply. Refer to Orion's statement "Discount for Irrigation Connections".			
Effective prices for irrigation connections on discount option	\$64.63/kW/yr	\$4.37/kW/yr	\$69.00/kW/yr
Standard delivery prices for general connections apply to non-qualifying irrigation connections.			
Capacity (applied to energy volumes derived from measurements at GEPs).			
Zone A (winter-peaking) and Zone B (summer-peaking):			
<u>Weekdays:</u>			
12 midnight - 8.00 am	0.60	0.14	0.74c/kWh
8.00am - 8.30pm	4.17	1.16	5.33c/kWh
8.30pm - 9.00pm	3.76	1.02	4.78c/kWh
9.00pm - 9.30pm	3.28	0.88	4.16c/kWh
9.30pm - 10.00pm	2.84	0.76	3.60c/kWh
10.00pm - 10.30pm	2.42	0.64	3.06c/kWh
10.30pm - 11.00pm	1.97	0.51	2.48c/kWh
11.00pm - 11.30pm	1.48	0.39	1.87c/kWh
11.30pm - 12 midnight	1.04	0.27	1.31c/kWh
<u>Weekends (Saturdays, Sundays & Public Holidays)</u>			
	0.60	0.14	0.74c/kWh
Zone B, summer season only:			
<u>Any Day:</u>	2.04	0.55	2.59c/kWh
Major Customer Connections			
Estimated number of connections 350			
Minimum chargeable loading of 300 kVA for new connection: Applied to measurements at the connector			
Fixed	500.05		\$500.05/year
Control Period Demand	60.00	21.92	\$81.92/kVA/yr
Assessed Capacity	24.40	23.00	\$47.40/kVA/yr
Provision of Equipment	Refer to Schedule		
Charge to the purchaser of the delivery service from Orion: Retailers, Major Customers		\$20 per monthly delivery invoice	
Charges for associated services		Refer to "Schedule of Charges for Associated Services"	



Delivery Prices

All prices are net, excluding GST

Applicable from 1 April 2002.

	Line	Transmission	Delivery
General Connections			
Estimated number of connections:			
Standard	168,270		
Outside Lighting	36,750		
Fixed			
Outside Lighting (per connection)	10.0	-	10.0c/day
Peak (applied to peak loadings derived from measurements at Grid Exit Points):			
Zone A (winter-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Zone B (summer-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Note: Zone A is the area supplied by Addington, Arthur's Pass, Bromley, Castle Hill, Coleridge, Islington, & Papanui GEPs. Zone B is the area supplied by Hororata & Springston GEPs.			
Other			
Rebate for power factor correction at irrigation connections:			
	\$(23.46)/kVA/yr		\$(23.46)/kVA/yr
On application, a discount is available to retailers supplying irrigation connections in Orion's Zone B. This discount is available for a limited period and certain conditions apply. Refer to Orion's statement "Discount for Irrigation Connections".			
Effective prices for irrigation connections on discount option			
	\$103.63/kW/yr	\$54.34/kW/yr	\$157.97/kW/yr
Standard delivery prices for general connections apply to non-qualifying irrigation connections.			
Capacity (applied to energy volumes derived from measurements at GEPs).			
Zone A (winter-peaking) and Zone B (summer-peaking):			
<u>Weekdays:</u>			
9.00pm - 7.00am	0.51	0.23	0.74c/kWh
7.00am - 9.00pm	4.32	0.93	5.25c/kWh
<u>Weekends (Saturdays, Sundays & Public Holidays)</u>			
	0.51	0.23	0.74c/kWh
Zone B, summer season only:			
<u>Any Day:</u>			
	2.04	0.53	2.57c/kWh
Major Customer Connections			
Estimated number of connections 330			
Minimum chargeable loading of 300 kVA for new connection: Applied to measurements at the connector			
Fixed	500.05		\$500.05/year
Control Period Demand	60.00	21.92	\$81.92/kVA/yr
Assessed Capacity	24.40	22.00	\$46.40/kVA/yr
Provision of Equipment	Refer to Schedule		
Charge to the purchaser of the delivery service from Orion: Retailers, Major Customers		\$20 per monthly delivery invoice	
Charges for associated services		Refer to "Schedule of Charges for Associated Services"	



Delivery Prices

All prices are net, excluding GST

Applicable from 1 April 2003.

	Line	Transmission	Delivery
General Connections			
Estimated number of connections:			
General	171,000		
Outside Lighting	37,400		
Fixed			
Outside Lighting (per connection)	10.0	-	10.0c/day
Peak (applied to peak loadings derived from measurements at Grid Exit Points):			
Zone A (winter-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Zone B (summer-peaking)	\$85/kVA/yr	\$35/kVA/yr	\$120/kVA/yr
Note:			
Zone A is the area supplied by Addington, Arthur's Pass, Bromley, Castle Hill, Coleridge, Islington, & Papanui GEPs.			
Zone B is the area supplied by Hororata & Springston GEPs.			
Other			
Rebate for power factor correction at irrigation connections:	\$ (23.46)/kVA/yr		\$ (23.46)/kVA/yr
On application, a discount is available to retailers supplying irrigation connections in Orion's Zone B. This discount is available for a limited period and certain conditions apply. Refer to Orion's statement "Discount for Irrigation Connections".			
Effective prices for irrigation connections on discount option	\$115.63/kW/yr	\$54.34/kW/yr	\$169.97/kW/yr
Standard delivery prices for general connections apply to non-qualifying irrigation connections.			
Capacity (applied to energy volumes derived from measurements at GEPs).			
Zone A (winter-peaking) and Zone B (summer-peaking):			
<u>Weekdays:</u>			
9.00pm - 7.00am	0.51	0.23	0.74c/kWh
7.00am - 9.00pm	4.32	0.93	5.25c/kWh
<u>Weekends (Saturdays, Sundays & Public Holidays)</u>			
	0.51	0.23	0.74c/kWh
Zone B, summer season only:			
<u>Any Day:</u>			
	2.04	0.53	2.57c/kWh
Major Customer Connections			
Estimated number of connections 375			
Minimum chargeable loading of 300 kVA for new connection:			
Applied to measurements at the connector			
Fixed	500.05		\$500.05/year
Control Period Demand	60.00	21.92	\$81.92/kVA/yr
Assessed Capacity	24.40	22.00	\$46.40/kVA/yr
Provision of Equipment	Refer to Schedule		
Charge to the purchaser of the delivery service from Orion: Retailers, Major Customers		\$20 per monthly delivery invoice	
Charges for associated services		Refer to "Schedule of Charges for Associated Services"	

Appendix 3:

Transmission charges

The Notice permits transmission charges to be passed through to customers, and excluded from the calculation of notional revenue. Where any amount is transparently passed on to customers or retailers, that amount may also be excluded from the calculation of notional revenue.

Orion has transparently passed through to retailers with customers connected to Orion's network:

- transmission rental rebates, since 1 April 1999, and
- ancillary service charges, since 1 April 2002.

Transmission charges payable by Orion for the years ending 31 March 2002 to 31 March 2004 (being the relevant periods contained in the Notice) are as follows:

	Actual 2002 \$000's	Actual 2003 \$000's	Budget 2004 \$000's
• transmission charges from Transpower	35,645	35,040	35,100
• less transmission rental rebates received from Transpower	(9,014)	(4,323)	-
• plus transmission rental rebates transferred to retailers	9,014	4,323	-
• plus ancillary services charges charged by Transpower	-	2,874	-
• less ancillary services charges charged to retailers	-	(2,874)	-
	<hr/>	<hr/>	<hr/>
	35,645	35,040	35,100
	<hr/>	<hr/>	<hr/>

Appendix 4:

Rates charges

The Notice permits rates levied on Orion's system fixed assets (as defined in the Electricity (Information Disclosure) Regulations 1999) to be passed through to customers, and to be excluded from the calculation of notional revenue.

Rates paid or payable by Orion for the years ending 31 March 2002 to 31 March 2004 (being the relevant periods contained in the Notice) are as follow:

	Actual 2002 \$000's	Actual 2003 \$000's	Budget 2004 \$000's
• rates on substation land and buildings	152	155	376
• rates on lines and cables	959	1,456	1,590
	<hr/>	<hr/>	<hr/>
	1,111	1,611	1,966

Appendix 5:

Excluded services

The Notice permits certain activities of a lines business to be excluded from the determination of notional revenue where there is effective competition for those services, or where those services are not directly related to the provision of electricity distribution.

Orion directly charges customers for very few services, and makes extensive use of external contractors rather than maintaining contracting staff in-house. Customers requiring electrical work are generally referred to their own electrician, or to a number of approved contractors for major work. Customers then pay their contractor directly. Other services are provided by Orion at no charge.

A description follows of the various types of services which are offered and/or provided by Orion, and the reason for their exclusion from the threshold calculation.

- New connections

Orion does not charge for processing applications for new connections to its electricity network. New connections to cables which are laid adjacent to existing boundary boxes are terminated by an approved Orion contractor at no charge to the customer. Orion does not charge for livening a new connection.

- Network extensions

Customer-driven network extensions, such as new subdivisions, are constructed by the developer's electrical contractor, and are connected to Orion's network by an Orion approved contractor provided that the extension complies with the requirements of Orion's published network design standards and Specifications.

Orion usually contributes to the cost of the extension, and usually purchases the extension.

- Builders temporary supply boundary boxes

Orion owns a pool of temporary supply boundary boxes which are used by builders. The weekly charge covers energy use, the cost of the boundary box, and a contribution to network capacity. A one-off fixed charge is made when the box is installed. However, as builders can choose whether or not to use these boxes, this is an optional service, and therefore is not included in the threshold calculation.

- Temporary supplies

Any one of three approved contractors can install and remove temporary supplies from Orion's network. Orion is billed by the contractor, and recharges this in turn to the customer without any margin being added.

- Dedicated equipment charges to major customers

This refers to distribution equipment such as transformers and switchgear which is owned and maintained by Orion, but which is dedicated to an individual major customer. Major customers have the choice to either provide their own dedicated equipment, or to be charged by Orion for the provision of the equipment. This is an optional service, and therefore the associated revenue is not required to be included in the threshold calculation. Equipment charges amount to approximately \$1.2m per annum, and the prices have not been revised since 1997.

- Replacement of network fuses

Failed network fuses are replaced by an approved contractor, or an Orion operator. There is no charge to the customer for the first visit within a six month period. Subsequent visits are charged to the customer by Orion at the rate billed by the contractor, without any margin being added.

- Disconnections and reconnections

Most of the disconnection and reconnection of customers' premises to Orion's network are undertaken directly by the electricity retailers and their contractors. Some retailer-requested disconnections and reconnections are also performed by Orion contractors with the costs of undertaking the work recharged to the retailer authorising the work.

- Demolitions

Orion does not charge for the disconnection of a property for demolition purposes provided that adequate notice is given. Where adequate notice is not given, Orion either passes on the charges of an approved contractor, or charges for an Orion operator at the rate that would be charged by an approved contractor.

- Energy use monitoring

Orion does not offer this service.

- Other services

Through arrangements with contractors, Orion can organise a number of services including high load escorts; relocation of overhead mains for bargeboard or fascia replacement, isolation for painting or tree trimming, covering lines for safety, resetting circuit breakers and switches, rewiring central supply fuses and repairs on customer premises.

These services are performed by a number of electrical contractors, and in most cases the customer is invoiced directly by the contractor.