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Commerce Act (Electricity Distribution Thresholds) Notice 2004

Threshold compliance statement

Sixth assessment (31 March 2008)

(issued 6 May 2008)



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INTRODUCTION

- 1 Orion New Zealand Limited (Orion) owns and operates the electricity distribution network in central Canterbury between the Waimakariri and Rakaia rivers, and from the Canterbury coast to Arthur's Pass. Our network covers 8,000 square kilometres of diverse geography, including Christchurch city, Banks Peninsula, farming communities and high country regions. We receive electricity from Transpower's national grid at ten different locations and we distribute this electricity to approximately 185,000 homes and businesses.
- 2 We charge electricity retailers on a wholesale basis for this delivery service. Retailers, in turn, include this cost in their retail electricity prices - our charges typically amount to less than 30 percent of a household's electricity bill.
- 3 As a natural monopoly service provider, we are subject to government regulation under part 4A of the Commerce Act 1986. Pursuant to the requirements of this Act, the Commerce Commission has set price and quality thresholds as a screening measure to identify distributors that warrant further investigation.
- 4 The price and quality thresholds, together with the information reporting requirements, are set out in the Commerce Act (Electricity Distribution Thresholds) Notice 2004, as amended by the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2006 (the *notice*).
- 5 This threshold compliance statement has been prepared to demonstrate our compliance, or otherwise, with the thresholds in the notice.
- 6 Specifically, this statement covers the information requirements detailed in clause 7(1) of the notice in relation to the "price path threshold" and the "quality threshold" as at 31 March 2008, the sixth assessment date.
- 7 We consider that the information disclosed in this statement is complete and meaningful such that no alternative approach is required, and that the detail of this statement is not commercially sensitive. Therefore, clauses 7(2) and 7(4) of the notice do not apply for us.
- 8 We prepared this compliance statement and issued it on 6 May 2008.

PRICE THRESHOLD STATEMENT

- 9 Clause 5(1)(a) of the notice requires notional revenue to not exceed allowable notional revenue at the assessment date. Calculating these revenues in accordance with clause 5(1)(a) of the notice (as detailed below in the section headed *price threshold calculation*) as at 31 March 2008:
- 9.1 our notional revenue was \$98,481.3k; and
 - 9.2 our allowable notional revenue was \$98,525.7k.
- 10 As our notional revenue was less than our allowable notional revenue, we comply with the price path threshold prescribed in clause 5(1)(a).
- 11 Clause 5(1)(b) of the notice requires notional revenue during each assessment period to not exceed the greater of allowable notional revenue at the assessment date (31 March 2008) or allowable notional revenue at the previous assessment date (31 March 2007).
- 11.1 our maximum notional revenue during the period occurred on 31 March 2008, and was \$98,481.3k; and
 - 11.2 our allowable notional revenue was \$98,525.7k at the assessment date and \$97,207.4k at the previous assessment date.
- 12 As our notional revenue at all points during the period was less than our allowable notional revenue at the end of the period, we comply with the price path threshold prescribed in clause 5(1)(b).

QUALITY THRESHOLD STATEMENT

Reliability

- 13 Clause 6(1)(a) of the notice sets out an interruption duration threshold requirement, as measured by the system average interruption duration index (SAIDI), and clause 6(1)(b) sets out an interruption frequency threshold requirement, as measured by the system average interruption frequency index (SAIFI).
- 14 In respect of both planned interruptions by Orion and unplanned interruptions originating within our network, the thresholds require our SAIDI and SAIFI for the year to the assessment date to not exceed the average SAIDI and SAIFI over the five year period to 31 March 2003.

- 15 Calculating these reliability indices in accordance with clause 6(1) of the notice (as detailed below in the section headed *quality threshold reliability information*):
- 15.1 our SAIDI for the assessment period was 44.85, which is less than our five year average SAIDI to 31 March 2003 of 63.23 minutes; and
- 15.2 our SAIFI for the assessment period was 0.63, which is less than our five year average SAIFI to 31 March 2003 of 0.76.
- 16 We therefore comply with the reliability thresholds in clauses 6(1)(a) and 6(1)(b).

Customer communication

- 17 Clause 6(1)(c) of the notice sets out customer communication requirements. The Commerce Commission's *Thresholds Decisions Paper*, dated 1 April 2004 details how lines businesses can demonstrate compliance with clause 6(1)(c). In particular, Orion is required to meaningfully engage with customers to determine their demand for service quality with reference to the price-quality trade-offs available to customers, and reflect that demand in its asset management planning.
- 18 Orion frequently consults customers to ensure that service levels meet customers' long term needs. We use various forms of customer consultation to determine customers' requirements.
- 19 Customer requirements are then incorporated into Orion's asset planning process. Both our asset management plan and our security of supply standard reflect customers' requirements. We continually endeavour to provide a quality of supply that meets customers' requirements while taking into consideration different customer categories.
- 20 Orion therefore complies with clause 6(1)(c) of the quality threshold. Our separate paper entitled *Threshold Compliance Statement Consumer Engagement (Sixth Assessment 31 March 2008)* provides further detail of Orion's compliance with this requirement.

PRICE THRESHOLD CALCULATION

- 21 Clause 5(1)(a) of the notice requires notional revenue at each assessment date, NR_t , to not exceed the allowable notional revenue at that assessment date, R_t , as expressed by the following condition:

$$\frac{NR_t}{R_t} \leq 1$$

Notional revenue

- 22 Using the definitions provided in clause 5(1)(a), notional revenue is evaluated as:

$$NR_t = \sum_i P_{i,t} Q_i - K_t$$

where t denotes the calendar year during which the assessment date occurs, that is 2008.

$$NR_{2008} = \sum_i P_{i,2008} Q_i - K_{2008}$$

where $\sum_i P_{i,2008} Q_i$ is the sum of each (i^{th}) price at the assessment date pertaining to every specified service, multiplied by the corresponding quantity for the year to 31 March 2008. This expression is evaluated as \$145,052.5k in the worksheet on page 8 titled *notional charges calculation*, and

K_{2008} is the sum of all pass-through costs for the year to 31 March 2008. This expression is evaluated as \$46,571.2k in the worksheet on page 9 titled *pass-through costs*.

$$\begin{aligned} \therefore NR_{2008} &= \$145,052.5k - \$46,571.2k \\ &= \$98,481.3k \end{aligned}$$

Allowable notional revenue

- 23 Using the definitions provided in Clause 5(1)(a), allowable notional revenue is evaluated as:

$$R_t = R_{t-1}(100\% + \Delta CPI_t)(100\% - X\%)$$

where t denotes the calendar year during which the assessment date occurs, that is 2008, and X is the factor specified for each distribution business, 1% for Orion.

$$R_{2008} = R_{2007}(100\% + \Delta CPI_{2008})(100\% - 1\%)$$

where R_{2007} is the allowable notional revenue as at 31 March 2007, the previous assessment date. This is provided in our previous threshold compliance statement as at 31 March 2007 (issued 2 May 2007) as \$97,207.4k, and

ΔCPI_{2008} is the average change in CPI (all groups index published by Statistics New Zealand) calculated as:

$$\Delta\text{CPI}_t = \left[\frac{\text{CPI}_{Q1,t-1} + \text{CPI}_{Q2,t-1} + \text{CPI}_{Q3,t-1} + \text{CPI}_{Q4,t-1}}{\text{CPI}_{Q1,t-2} + \text{CPI}_{Q2,t-2} + \text{CPI}_{Q3,t-2} + \text{CPI}_{Q4,t-2}} - 1 \right] \times 100\%$$

$$\therefore \Delta\text{CPI}_{2008} = \left[\frac{\text{CPI}_{Q1,2007} + \text{CPI}_{Q2,2007} + \text{CPI}_{Q3,2007} + \text{CPI}_{Q4,2007}}{\text{CPI}_{Q1,2006} + \text{CPI}_{Q2,2006} + \text{CPI}_{Q3,2006} + \text{CPI}_{Q4,2006}} - 1 \right] \times 100\%$$

$$= \left[\frac{1010 + 1020 + 1025 + 1037}{985 + 1000 + 1007 + 1005} - 1 \right] \times 100\%$$

$$= 2.38\%$$

$$\therefore R_{2008} = \$97,207.4\text{k} (100\% + 2.38\%)(100\% - 1\%)$$

$$= \$98,525.7\text{k}$$

24 Substituting these values in the price threshold condition noted above gives:

$$\frac{NR_t}{R_t} \leq 1$$

$$\frac{\$98,481.3\text{k}}{\$98,525.7\text{k}} = 0.9995$$

25 Therefore, as the price threshold condition is satisfied, we comply with the price threshold specified in clause 5(1)(a) of the notice.

PRICE THRESHOLD SUPPORTING INFORMATION

Notional charges calculation

- 26 This worksheet shows the quantities, prices, and corresponding charges used in our calculation of $\sum P_{i,2008} Q_i$ above. Published price schedules with supporting prices are provided in appendix A.

| Price components for specified services | Base Quantities (Q_i) year to 31 March 2003 | Assessed delivery prices ($P_{i,2008}$) as at 31 March 2008 | Notional annual delivery charges ($P_{i,2008} \times Q_i$) \$000 |
|--|--|--|--|
| General connections | | | |
| Fixed Component | | | |
| Outside lighting (per connection) | 36,750 connections | 11.27 ¢/conn/day | 1,511.7 |
| Peak | | | |
| Zone A (applied during winter only) | 390,200 kVA | 142.94 \$/kVA/yr | 55,775.2 |
| Zone B (applied during summer only) | 59,700 kVA | 142.94 \$/kVA/yr | 8,533.5 |
| Capacity | | | |
| Zone A | | | |
| 7:00am - 9:00pm on working weekdays | 780,934 MWh | 5.601 ¢/kWh | 43,740.1 |
| 9:00pm - 7:00am and on weekends or public holidays | 974,000 MWh | 0.701 ¢/kWh | 6,827.7 |
| Zone B | | | |
| During winter | | | |
| 7:00am - 9:00pm on working weekdays | 44,785 MWh | 5.601 ¢/kWh | 2,508.4 |
| 9:00pm - 7:00am and on weekends or public holidays | 60,281 MWh | 0.701 ¢/kWh | 422.6 |
| During summer | 245,000 MWh | 2.661 ¢/kWh | 6,519.5 |
| Irrigation | | | |
| Transitional Irrigation Package | 10,137 kW | 202.20 \$/kW/yr | 2,049.7 |
| - refund (capacity) | 45,000 MWh | (2.66) ¢/kWh | (1,197.5) |
| - refund (peak) | 12,000 kVA | (142.94) \$/kVA/yr | (1,715.3) |
| PF correction rebate | 14,000 kVAR | (25.20) \$/kVAR/yr | (352.8) |
| Interruptibility rebate | 1,563 kW | (6.30) \$/kW/yr | (9.8) |
| Major customer connections | | | |
| Fixed (standard connections) | 330 connections | 500.05 \$/conn/yr | 165.0 |
| Fixed (secondary connections) | 20 connections | 266.30 \$/conn/yr | 5.3 |
| Control Period Demand | 103,500 kVA | 122.67 \$/kVA/yr | 12,696.3 |
| Assessed capacity - distribution | 184,300 kVA | 25.50 \$/kVA/yr | 4,699.7 |
| Assessed capacity - transmission | 199,500 kVA | 14.75 \$/kVA/yr | 2,942.6 |
| Export and generation credits (distribution part only) | | | |
| Real power export | 2,912 kW | (63.48) \$/kW/yr ¹ | (184.9) |
| Reactive power export | 1,577 kVAR | (21.63) \$/kVAR/yr ¹ | (34.1) |
| Generation credits | 0 kWh | (25.00) ¢/kWh | 0.0 |
| Miscellaneous | | | |
| Monthly invoice charge | 42 invoices/mth | 20.00 \$/invoice | 10.1 |
| Builders' temporary supplies ² | 813 connections | 47.00 ¢/conn/day | 139.5 |
| Total notional charges $\sum_i P_{i,2008} Q_i$ | | | 145,052.5 |

Notes

1 The export credit prices for large generators differ from those published in our credit schedule, *Export and generation credits*, as a result of contractual commitments to an historic pricing basis. We credit 2.4% of customers' real export and 21.8% of their reactive export using historic prices. For the purpose of this threshold assessment, the weighted average credit price is used.

We have not paid any credits for medium generators. Small generators are accommodated under a net billing approach, where export quantities offset load quantities, and we only charge for net load.

Only the distribution part of export credits is included in the calculation of notional charges. The transmission part is excluded from the calculation, and instead the actual amounts credited are included as an avoided transmission charge (refer to following section headed *pass-through costs*).

2 The builders' temporary supply price relates to administration, electricity supply and electricity delivery. Refer also to *excluded services* below.

3 All prices and revenues exclude GST.

Pass-through costs

27 Pass-through costs include transmission charges (including charges payable to Transpower and M-co for transmission services, and avoided transmission charges), rates payable to territorial local authorities, and levies payable to the Electricity Commission.

28 Transmission charges for the year to 31 March 2008 are calculated as Transpower charges plus avoided transmission charges, less the component of Transpower charges passed on transparently to electricity retailers, as follows:

| | \$000 | \$000 |
|---|------------------|------------------|
| Transpower and System Operator charges | | |
| Connection | 7,169.8 | |
| Interconnection | 41,678.1 | |
| EV adjustment | (4,887.7) | |
| New investment | 259.0 | |
| Loss and constraint rebates | <u>(4,216.5)</u> | |
| | | 40,002.7 |
| plus Avoided transmission charges | | |
| Transmission component of amounts paid to customers with generators | | |
| Export credits | 161.8 | |
| Generation credits | <u>10.7</u> | |
| | | 172.5 |
| less (plus) Transparent "pass on" charges (payments) to retailers and direct customers | | |
| Loss and constraint rebates | <u>(4,216.5)</u> | |
| | | <u>(4,216.5)</u> |
| gives Transmission charge | | 44,391.7 |

29 Combined with rates paid to local and regional Councils in respect of system fixed assets, and levies paid to the Electricity Commission, these costs represent our pass-through deduction for the period:

| | \$000 |
|----------------------------------|-----------------|
| Transmission charge (from above) | 44,391.7 |
| Local authority rates | 1,772.0 |
| Electricity Commission levies | <u>407.5</u> |
| | 46,571.2 |

PRICE THRESHOLD EXCLUDED SERVICES

- 30 Clause 3 of the notice defines *specified services* that are included in the price threshold assessment. The definition permits certain lines business activities to be excluded from the assessment where there is effective competition for those services.
- 31 We have included all delivery service charges for conveying electricity in the calculation of notional revenue. We have also included associated service charges where they meet the definition of specified services, and where they are not provided in effective competition with other providers.
- 32 We directly charge customers for very few services, and make extensive use of external contractors rather than maintaining contracting staff in-house. Customers requiring electrical work are generally referred to their own electrical contractor, or to a number of Orion-approved contractors for major work. Customers then pay the contractor directly. We provide other services without charge, and these are also excluded.
- 33 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 price threshold calculation.

New connections and network extensions

- 34 The value of assets vested in Orion by customers in the form of capital contributions is excluded. We take into account the average economic value of customer-driven network reinforcement and extensions (including new subdivisions) and, in most situations, we cover a portion of the cost of new assets. Where appropriate, we encourage the customer to select and directly employ independent contractors to design and build network extensions that comply with our published network design standard requirements and specifications.

Disconnections and reconnections

- 35 Disconnections and reconnections of customers' premises to our network are mostly undertaken directly by electrical contractors who are employed by the electricity retailers. Some retailer-requested disconnections and reconnections are also performed by our contractors. We then recharge the costs of undertaking the work to the retailer who requested the work. As there is effective competition for this service it has been excluded from the price threshold assessment.

Demolitions

- 36 We do not charge for disconnecting a property for demolition purposes provided that adequate notice is given. Where adequate notice is not given, we either pass on the charges of an Orion-approved contractor, or charge for one of our operators at the rate that would be charged by an Orion-approved contractor (without margin).

Dedicated equipment charges to major customers

- 37 We charge major customers for electricity delivery equipment that is dedicated to these customers. We own and maintain this equipment which includes items such as transformers, switchgear, protection devices, ripple relays and metering interface equipment. Many major customers elect to provide their own equipment or use an alternate provider. As there is effective competition for this service we have excluded it from the price threshold assessment.

Replacement of fuses (pole and boundary box)

- 38 Failed fuses are replaced by an Orion-approved contractor, or one of our operators. There is no charge to the customer for the first visit within a six month period. We charge the customer for subsequent visits at the rate billed by the contractor, without adding any margin.

Builders' temporary supplies

- 39 We administer small capacity, generally single phase, builders' temporary supplies, and we also own a pool of temporary supply boxes which are offered for use by builders. The service is divided into three parts:
- 39.1 Installation and removal is carried out by any one of three Orion-approved contractors. We are billed by the contractor, and recharge this in turn to the customer without specifically adding any margin. On this basis, this service is excluded from the calculation of notional revenue.
 - 39.2 Administration (including tracking and billing), electricity and electricity delivery is provided only by Orion, and is included in the calculation of notional revenue.
 - 39.3 The actual temporary supply boxes are provided by competing suppliers. We charge separately for this optional part of the service and exclude this revenue on the basis of the active competition between suppliers.
- 40 We do not receive revenue in respect of the provision of larger capacity three-phase temporary supplies (other than through standard delivery charges, which are included in the calculation of notional revenue).

Other services

- 41 Through arrangements with contractors, we organise a number of other services including high load escorts, relocation of overhead mains for bargeboard or fascia replacement, isolation for painting or tree trimming, resetting circuit breakers and switches, rewiring central supply fuses and repairs on customer premises.
- 42 These services are performed by a number of electrical contractors, and in most cases the customer is invoiced directly by the contractor. We have excluded these other services because they are not 'price' based and they do not form a material part of our revenue.

QUALITY THRESHOLD RELIABILITY INFORMATION

- 43 Clauses 6(1)(a) and 6(1)(b) of the notice require that reliability measures in relation to *duration* and *frequency* of planned (class B) and unplanned (class C) interruptions in the assessment period do not exceed the averages over the five year period to 31 March 2003. The notice also requires this statement to include a description of the policies and procedures we use to record these statistics during the year to the assessment date.

Recording reliability information

- 44 We record interruptions on our network in a control centre log. The details recorded include:
- 44.1 district substation;
 - 44.2 feeder;
 - 44.3 switching device where isolation occurred;
 - 44.4 asset type affected;
 - 44.5 cause of interruption;
 - 44.6 time/date off;
 - 44.7 time/date for each restored section;
 - 44.8 number of consumers affected in each restored section; and
 - 44.9 explanatory notes.
- 45 The number of consumers whose power is restored at each restoration stage is calculated by a network-trace of connected consumers on our GIS network model.
- 46 This information is then loaded in a *reliability* database, and reliability statistics are queried from this database as required.
- 47 Finally, the total number of connected consumers on the network is obtained from our *connections* database. We maintain details of all our network connections on this database, and we regularly undertake reconciliations with the Electricity Commission Registry.

Interruption duration

- 48 This assessment is based on the System Average Interruption Duration Index (SAIDI). Clause 6(1)(a) of the notice requires that:

$$SAIDI_{2008} \leq \frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5}$$

Orion's SAIDI results are:

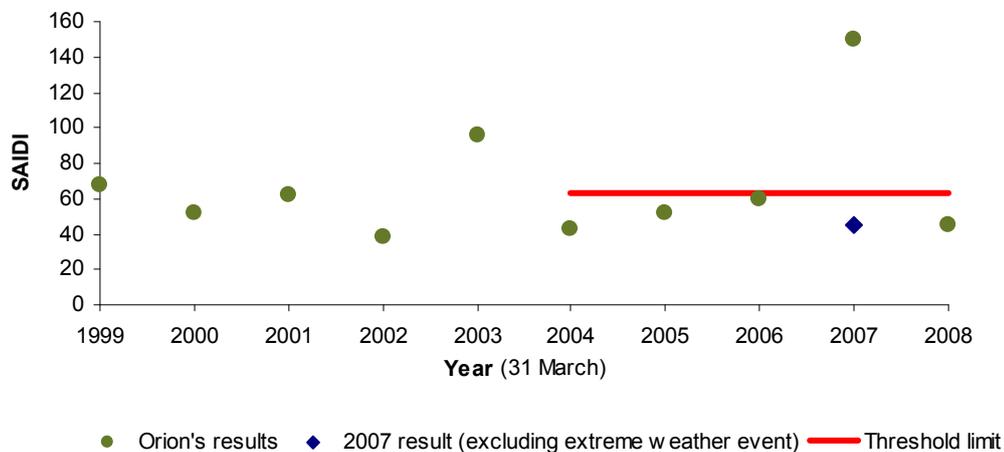
| Year to 31 March | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|-----|--------------|
| SAIDI | 1999 | 2000 | 2001 | 2002 | 2003 | ... | 2008 |
| SAIDI for class B & C interruptions (minutes per connection per year) | | | | | | | |
| | 67.71 | 51.83 | 62.25 | 38.20 | 96.18 | ... | 44.85 |
| SAIDI for interruptions within each interruption class (= a/b) | | | | | | | |
| Class B | 17.55 | 6.44 | 3.13 | 4.91 | 10.59 | ... | 10.19 |
| Class C | 50.17 | 45.39 | 59.12 | 33.29 | 85.59 | ... | 34.66 |
| where - | | | | | | | |
| a = sum of interruption duration factors within each interruption class | | | | | | | |
| Class B | 2,784,242 | 1,047,025 | 521,074 | 826,268 | 1,806,095 | ... | 1,880,742 |
| Class C | 7,960,050 | 7,377,331 | 9,845,244 | 5,599,642 | 14,591,721 | ... | 6,398,702 |
| b = average number of connections | | | | | | | |
| | 158,673 | 162,543 | 166,538 | 168,231 | 170,490 | ... | 184,617 |

- 49 Substituting our results, the right-hand side of the condition above becomes:

$$\frac{67.71 + 51.83 + 62.25 + 38.20 + 96.18}{5} = 63.23 \text{ minutes per year}$$

- 50 Our result for 2008 of 44.85 minutes satisfies the condition in the notice requirement.

SAIDI results during the reference period (1999 through 2003) and subsequent assessment periods are depicted graphically as follows:



Interruption frequency

- 51 This assessment is based on the System Average Interruption Frequency Index (SAIFI). Clause 6(1)(b) of the notice requires that:

$$SAIFI_{2008} \leq \frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5}$$

Orion's SAIFI results are:

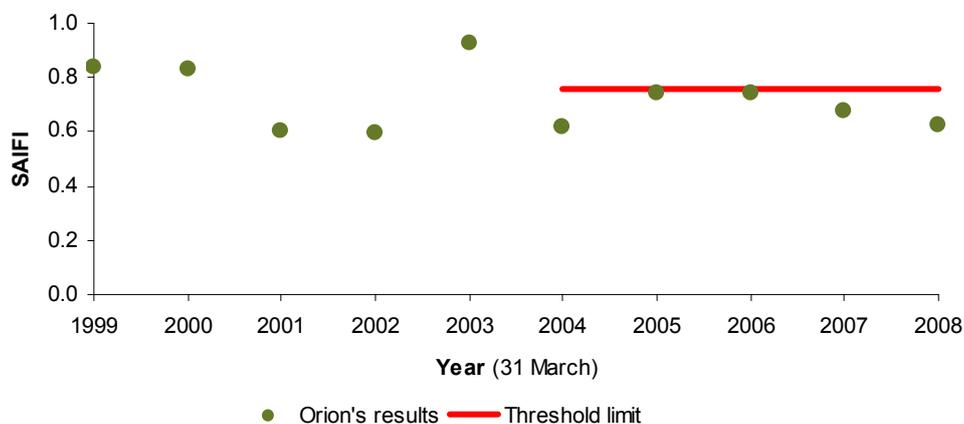
| <i>Year to 31 March</i> | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| SAIFI | 1999 | 2000 | 2001 | 2002 | 2003 | ... | 2008 |
| SAIFI for class B & C interruptions (interruptions per connection per year) | | | | | | | |
| | 0.84 | 0.83 | 0.60 | 0.60 | 0.93 | ... | 0.63 |
| SAIFI for interruptions within each interruption class (= a/b) | | | | | | | |
| Class B | 0.09 | 0.03 | 0.02 | 0.02 | 0.04 | ... | 0.04 |
| Class C | 0.75 | 0.80 | 0.58 | 0.58 | 0.89 | ... | 0.59 |
| where - | | | | | | | |
| a = sum of connections affected by each interruption within each interruption class | | | | | | | |
| Class B | 15,000 | 4,503 | 3,163 | 3,265 | 6,529 | ... | 7,383 |
| Class C | 118,249 | 130,525 | 96,795 | 97,462 | 151,227 | ... | 108,216 |
| b = average number of connections | | | | | | | |
| | 158,673 | 162,543 | 166,538 | 168,231 | 170,490 | ... | 184,617 |

- 52 Substituting our results, the right-hand side of the condition above becomes:

$$\frac{0.84 + 0.83 + 0.60 + 0.60 + 0.93}{5} = 0.76 \text{ interruptions per year}$$

- 53 Our result for 2008 of 0.63 interruptions per year satisfies the condition in the notice requirement.

- 54 SAIFI results during the reference period (1999 through 2003) and subsequent assessment periods are depicted graphically as follows:



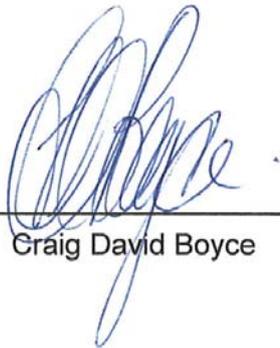
CONCLUSION

- 55 The information provided above, issued together with Orion's Threshold Compliance Statement Consumer Engagement, demonstrates that Orion has complied with the price and quality thresholds set out in the Commerce Act (Electricity Distribution Thresholds) Notice 2004, as amended by the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2006.

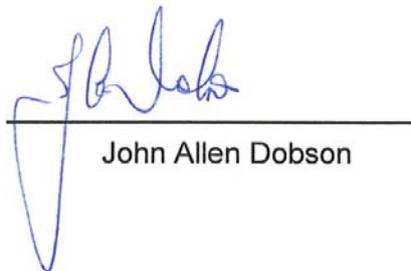
DIRECTORS' CERTIFICATE

ON THRESHOLD COMPLIANCE STATEMENT

We, Craig David Boyce and John Allen Dobson, 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 Distribution Thresholds) Notice 2004 complies with the requirements of that notice.



Craig David Boyce



John Allen Dobson

Dated 6 May 2008

AUDIT REPORT

**REPORT OF THE AUDITOR-GENERAL
TO THE READERS OF THE
THRESHOLD COMPLIANCE STATEMENT OF ORION NEW ZEALAND LIMITED FOR THE
ASSESSMENT PERIOD ENDED ON 31 MARCH 2008**

We have audited the attached statement, prepared by Orion New Zealand Limited (the company) for assessment as at 31 March 2008 and dated 6 May 2008. The attached statement is a threshold compliance statement in respect of the price path threshold and the quality threshold, for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 (the Notice). In this report the attached statement is called "the threshold compliance statement".

Directors' Responsibilities

The Directors of the company are responsible for certification of the threshold compliance statement in accordance with the 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 audit the threshold compliance statement. It is the responsibility of the Auditor-General to express an independent opinion on the threshold compliance statement and report the opinion to you.

The Auditor-General has appointed Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit, on his behalf.

Basis of Opinion

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

The audit included examining, on a test basis, evidence relevant to the amounts and disclosures contained on pages 1 to 16 of the threshold compliance statement and which relate to:

- the price path threshold set out in clause 5 of the Notice;
- the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2008 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
- the customer communication part of the quality threshold set out in clause 6(1)(c) of the Notice.

It also included assessment of the significant estimates and judgments, if any, made by the company in the preparation of the threshold compliance statement and assessment of whether the basis of preparation has been adequately disclosed.

We planned and performed the audit so as to obtain all the information and explanations which we considered necessary. We obtained 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.

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 the company 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.

Independence

In addition to the audit of the threshold compliance statement we have carried out other audit assignments for the company. This involved issuing an audit opinion on the annual financial statements for the year ended 31 March 2007 as well as audit certificates pursuant to the Electricity Information Disclosure Requirements 2004. These assignments are compatible with those independence requirements.

Other than the audit and these assignments we have no relationship with or interest in the company.

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 and 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 the company against that threshold for the assessment period ended on 31 March 2008.

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 period ended on 31 March 2008 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 and prepared in accordance with the Notice and in accordance with the company's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and give a true and fair view of the performance of the company for the assessment period ended on 31 March 2008;
- 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 the company 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 the company; and

- the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2008, 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 the company 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 2008.

Quality Threshold: Customer Communication

In our opinion, having made all reasonable enquiry, to the best of our knowledge the information set out in the threshold compliance statement relating to that part of the quality threshold that is set out in clause 6(1)(c) of the Notice has been prepared in accordance with the Notice, and gives a true and fair view of the performance of the company against that part of the quality threshold for the assessment period ended on 31 March 2008.

The audit was completed on 6 May 2008 and our opinion is expressed as at that date.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Matters relating to the electronic presentation of the audited threshold compliance statement

This audit report relates to the threshold compliance statement of Orion New Zealand Limited for the year ended 31 March 2008 included on the company's website. The company's Board of Directors is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the 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 or 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 6 May 2008 to confirm the information included in the audited statement presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

APPENDIX A – DELIVERY, ASSOCIATED SERVICE AND EXPORT PRICE SCHEDULES

Delivery prices

(applicable from 1 April 2007 to 31 March 2008)



(excluding GST)

This schedule lists the wholesale prices that Orion uses to charge electricity retailers and directly contracted customers for the electricity delivery service in Orion's network area. This delivery service includes the transmission and distribution of electricity to homes and businesses, but does not include the cost of the electricity itself. Please refer to your electricity retailer for details of retail electricity prices.

| | Distribution | Transmission | Delivery (total) | |
|--|--------------|--------------|------------------|---------------|
| Outside lighting connections | | | | |
| <i>eg streetlighting</i> | | | | |
| <i>approx 40,492 connections as at February 2007</i> | | | | |
| Fixed charge | 11.24 | 0.03 | 11.27 | ¢/day |
| <i>plus peak and capacity prices as noted for general connections below</i> | | | | |
| General connections | | | | |
| <i>approx 179,320 connections as at February 2007</i> | | | | |
| Peak period demand | | | | |
| Zone A (applied during winter only) | 100.53 | 42.41 | 142.94 | \$/avg kVA/yr |
| Zone B (applied during summer only) | 100.53 | 42.41 | 142.94 | \$/avg kVA/yr |
| Capacity (volume charges) | | | | |
| Zone A | | | | |
| 7am-9pm on working weekdays | 4.494 | 1.107 | 5.601 | ¢/kWh |
| 9pm-7am & weekends or public holidays | 0.532 | 0.169 | 0.701 | ¢/kWh |
| Zone B (during winter) | | | | |
| 7am-9pm on working weekdays | 4.494 | 1.107 | 5.601 | ¢/kWh |
| 9pm-7am & weekends or public holidays | 0.532 | 0.169 | 0.701 | ¢/kWh |
| Zone B (during summer) | 2.117 | 0.544 | 2.661 | ¢/kWh |
| Rebates | | | | |
| Irrigation power factor correction rebate | (25.20) | - | (25.20) | \$/kVA/yr |
| Irrigation interruptibility rebate (zone B) | (6.30) | - | (6.30) | \$/kW/yr |
| Transitional Irrigation connections | | | | |
| <i>approx 251 connections as at February 2007</i> | | | | |
| Pump nameplate capacity charge | 133.70 | 68.50 | 202.20 | \$/kW/yr |
| Irrigation power factor correction rebate | (25.20) | - | (25.20) | \$/kVA/yr |
| Irrigation interruptibility rebate (zone B) | (6.30) | - | (6.30) | \$/kW/yr |
| Major customer connections | | | | |
| <i>approx 396 standard plus 17 secondary connections as at February 2007</i> | | | | |
| Fixed charge (standard connections) | 500.05 | - | 500.05 | \$/yr |
| Fixed charge (secondary connections) | 266.30 | - | 266.30 | \$/yr |
| Control period demand | 83.26 | 39.41 | 122.67 | \$/kVA/yr |
| Assessed capacity - distribution | 25.50 | - | 25.50 | \$/kVA/yr |
| Assessed capacity - transmission | - | 14.75 | 14.75 | \$/kVA/yr |
| Miscellaneous | | | | |
| Monthly invoice charge to retailers and directly contracted major customers | 20.00 | - | 20.00 | \$/invoice |

Notes

1. Orion's documents Application of delivery prices and/or Application of major customer delivery pricing apply.
2. Peak and capacity prices for general connections are applied to peak loadings and volumes derived from measurements taken at grid exit points. Zone A is the area supplied by Addington, Arthur's Pass, Bromley, Castle Hill, Coleridge, Islington and Papanui grid exit points. Zone B is the area supplied by Hororata and Springston grid exit points.
3. Winter is defined as the period April - September inclusive, summer is October - March inclusive.
4. Demand and capacity prices for major customer connections are applied to measurements taken at the connection.



Associated service prices

(revised 9 March 2007, applicable from 1 April 2007)

The following charges apply to associated services as outlined in Schedule C of Orion's Delivery Service Agreement. For most services we require at least 3 working days advance notice and we will pass on any additional costs charged by subcontractors for urgent work where a shorter request period is given. Note also the extra charge for after-hours service included in the list. Charges are payable by the party requesting the service.

| | Charges (excluding GST) |
|---|-----------------------------------|
| Connection Services (residential and small commercial) | |
| <i>New connections and network extensions</i> | |
| In many situations Orion requires a capital contribution toward the cost of new assets or for the use of existing assets. Specific requirements apply in some situations. The following summarises the customer contributions required for the majority of new connections: | |
| <i>Urban</i> | |
| Single phase, up to 63 amps (including most residential connections) | \$600 |
| Three phase, up to 100 amps per phase | \$1,000 |
| <i>Rural</i> | |
| Fund the cost of any network extension required, plus | |
| Single phase, up to 63 amps | \$2,500 |
| Three phase, up to 100 amps per phase | \$6,000 |
| Full details, including the areas defined as urban and rural, are available in Orion's <i>Connections and extensions policy</i> available from the pricing page on our website (www.oriongroup.co.nz) | |
| <i>Site Survey*</i> | \$52 (urban) |
| Establishing energisation status, recording meter numbers and readings, verification of address and location (as requested). | \$104 (rural) |
| | \$156 (remote) |
| <i>Temporary Isolation of Overhead Service Main*</i> | \$52 (urban) |
| Under this service, Orion will isolate, relocate, disconnect and/or reconnect overhead mains to allow customers to safely trim trees or replace, repair or paint spouting and barge boards on the customer's premises. In some situations more than one site visit is required - these charges apply "per visit". The cost of any additional equipment (shackles, cleats, mains entry box) will be charged in addition. | \$104 (rural) |
| | \$156 (remote) |
| | plus \$21 per phase |
| <i>Temporary Disconnection**</i> | \$100 (urban) |
| Temporary isolation of existing connections as a result of (for example) vacancy, non-payment or safety reasons. Includes return of meter readings to retailer or agent. | \$150 (rural) |
| | \$200 (remote) |
| <i>Reconnection**</i> | \$100 (urban) |
| Reconnection of an existing premise following temporary disconnection. Includes return of meter readings to retailer or agent but excludes provision of a certificate of compliance (if required). | \$150 (rural) |
| | \$200 (remote) |
| <i>Decommissioning#</i> | No charge |
| Permanently disconnect a site by physically isolating the service line from Orion's network. Removal of pole fuse and shackles, or remove underground service cable from Orion's boundary box. Does not include removal of meters or return of meter readings. A decommissioning request that cannot be carried out (for example, because the premise is occupied) will be charged as a <i>Site Survey</i> (see above). | |
| <i>Removal of Metering Equipment (optional)</i> | add \$52 (all areas) |
| In conjunction with decommissioning (above), this additional charge is payable for removal of metering and associated equipment, return of equipment to designated Christchurch base, and return of meter readings to retailer or agent, where requested. | |
| <i>After-hours Service (optional)</i> | add \$150 (all areas) |
| In relation to the above services, this additional charge is payable where it is requested that the work be carried out outside of normal business hours (normal business hours are 8am to 5pm, Monday to Friday excluding public holidays). | |

See notes on following page

| | Charges (excluding GST) |
|---|---|
| Single Phase Temporary Connections | |
| <p>This service covers the supply of small single phase temporary connections (generally for building and construction sites) adjacent to existing network reticulation, or where Orion is providing reticulation in the development of a permanent supply. Orion does not provide or install larger (generally three phase) temporary supplies - these can be arranged through a number of Orion-approved contractors.</p> | |
| <p><i>Installation and Removal</i> Covers both installation and removal of Orion-owned and non Orion-owned temporary supply boxes.</p> | <p>\$68 (urban) \$94 (rural) \$125 (remote)</p> |
| <p><i>Special Trip</i> Applies in addition to the installation and removal charge where an additional trip is required, either because the site is not ready when the contractor first calls, or where the removal cannot be carried out in conjunction with the enlivening of a permanent supply at the same site.</p> | <p>\$52 (urban) \$78 (rural) \$109 (remote)</p> |
| <p><i>Administration and Electricity Supply</i> Applies to Orion-owned and non Orion-owned temporary supply boxes. Covers retail electricity, delivery, billing and administration.</p> | <p>\$0.47 per day</p> |
| <p><i>Supply Box Hire</i> Applies in addition to the Administration and Electricity Supply component where an Orion-owned temporary supply box is installed.</p> | <p>\$1.43 per day</p> |
| High Load Escorting Service | |
| Standard escort | <p>\$60/hour plus \$0.95/km</p> |
| Complex escort (requiring a tower truck and two lines staff) | <p>price on application</p> |

Notes: These services apply only for standard residential connections, and other standard connections up to a capacity of 3 x 60 amps. Extra charges may apply where additional work is required (eg for a Certificate of Compliance). All charges are applied "per site visit". For larger connections, or connections with an unusual configuration, please contact Orion call centre on 0800 363 9898.

For all services other than network extensions and new connections, **Urban** is within a 20km radius of Cathedral Sq, **rural** is between 20km and 40km from Cathedral Sq, and **remote** is beyond 40km. For the Banks Peninsula area, the Hilltop Hotel is designated as the 40km radius point.

Orion can only undertake these services (marked with a hash) at the request of, or in conjunction with, an electricity retailer.

* Orion provides these services (marked with a star) as a last resort for difficult situations where the retailers' usual contractors are unable to complete the task. The charge reflects the usual range of difficulties encountered. Staff and contractor safety is paramount and Orion cannot guarantee that tasks will be completed.

Export and generation credits

(applicable from 1 April 2007 to 31 March 2008)



(excluding GST)

This schedule lists the credit prices that Orion uses to credit electricity retailers or directly contracted customers for exports or contributions from their embedded generation. The credits do not represent the purchase of electricity. They are a recognition of the value to Orion in providing its delivery service. Credits are only available for generation approved by Orion and customers must apply in advance. For further details refer to the document *Application of export and generation credits*, available on Orion's website.

Export credit pricing

Orion provides credits for electricity exported on to Orion's network during specified periods. The prices for these credits are:

| Generator output | Period applied | Distribution | Transmission | Delivery | |
|--|---|--------------|--------------|----------|---------------|
| Small (0 - 5 kVA)² | <i>Standard 'general connection' peak and capacity delivery prices apply at all times</i> | | | | |
| Medium (5 - 30 kVA)³ | General connection chargeable peak period, by zone | 45.0 | 24.4 | 69.40 | ¢/kWh |
| Large (30 - 1000 kVA)³ | Major customer control period, by zone | | | | |
| - Real power | | 63.10 | 32.70 | 95.80 | \$/avg kW/yr |
| - Reactive power | | 20.60 | 10.70 | 31.30 | \$/avg kVA/yr |

Notes for export credit pricing

1. Full details covering generation and metering requirements and application of prices are included in the document *Application of export and generation credits*, available on Orion's website.
2. For small generators, export volumes are not included with a retailer's chargeable GXP volumes and are therefore not charged. This is effectively a credit to the retailer at the delivery prices applying to general connections.
3. These credit prices apply to export pre-approved embedded generators of up to 1 megawatt output rating. Orion will individually consider credit prices for larger generators. As at February 2007, approximately 20 connections are approved for export credits.

Generation credit pricing

In addition to the credits above, Orion provides credits for generation at other times. These credits are based on the generated volume, regardless of whether this results in export from the connection, and are available to all consumers with generation in excess of 30kVA.

| Generator output | Period applied | Distribution | Transmission | Delivery | |
|---|--|--------------|--------------|----------|-------|
| Large (30 - 1000 kVA) - Real energy | Orion's ripple signalled generation period | 25.0 | 25.0 | 50.00 | ¢/kWh |

Notes for generation credit pricing

1. Full details covering generation requirements and the application of credit prices are included in the document *Application of export and generation credits*, available on Orion's website.
2. These prices apply for pre-approved generation during Orion's ripple signalled generation period. The total duration of generation periods is likely to vary significantly from year to year. In some years there may be no generation periods. As at February 2007, approximately 42 connections are approved for generation credits.