







Commerce Act (Electricity Lines Thresholds) Notice 2003

**Pursuant to Sections 57G and 57T of
the Commerce Act 1986**



**Compliance with
price path threshold 5(1)(c),
quality threshold 6(1)(a) and 6(1)(b),
customer communication 6(1)(e)
and the associated audit, certification
and disclosure requirements**

Summary of compliance

-  Price path threshold 5(1)(c)
-  Quality threshold 6(1)(a)
-  Quality threshold 6(1)(b)
-  Customer Communication 6(1)(e)
-  Auditor's report
-  Directors' certificate

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Officer for inquiries

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1. Compliance with price path threshold 5(1)(c)

$$\sum P_{i,2004} Q_{i0} - C_{T2004} - C_{R2004} \quad \text{£} \quad \sum P_{i,0} Q_{i0} - C_{T2003} - C_{R2003}$$

1.1 LHS of 5(1)(c) – maximum notional revenue from 6 September 2003 to 31 March 2004

Notional annual revenue at the third reference date (31 March 2004) is copied from appendix 1, viz \$13,960,565.

1.2 RHS of 5(1)(c) – notional revenue at 6 September 2003

The First Assessment Date is 6 September 2003 and the disclosed minimum notional annual revenue at that date is \$14,172,256.

1.3 Comparison of LHS and RHS

\$13,960,565 £ \$14,172,256 

2. Compliance with quality threshold 6(1)(a)

$$SAID_{2004} \text{ £ } \frac{SAID_{1999} + SAID_{2000} + SAID_{2001} + SAID_{2002} + SAID_{2003}}{5}$$

330.70 £ **366.56** ✓

3. Compliance with quality threshold 6(1)(b)

$$SAIF_{2004} \text{ £ } \frac{SAIF_{1999} + SAIF_{2000} + SAIF_{2001} + SAIF_{2002} + SAIF_{2003}}{5}$$

1.93 £ **3.34** ✓

4. Customer Consultation

4.1 Consultation requirements

The customer consultation requirements are defined in Section 6(1)(e) of the Notice, and broadly require a lines company to....

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

4.2 Consultation methodology & justification

Based on discussions with the Commerce Commission in June and July 2003 that the Commission was not expecting lines companies to consult with "mum & dad" customers (and which has been subsequently supported by Sections 87 to 89 of the Targeted Control Regime Threshold Decisions document dated 23 December 2003), Eastland Network considers that engaging with its 20 largest customers would fulfill this requirement.

These 20 customers collectively represent about 44% of Eastland Network's after-diversity maximum demand and about 24% of the energy conveyed across Eastland Network's system.

Each of these 20 customers was surveyed by Utility Consultants Ltd of Hamilton to provide an independent view.

4.3 Broad observations

The broadest observation is that all 3 of the large Wairoa customers seem happy with the reliability of their electricity supply (with two of these customers wanting additional capacity) but that many Gisborne customers are not happy with the reliability of their supply.

Several of those unhappy Gisborne customers are in the Matawhero area. This area also includes some perfectly happy customers, so it is not clear whether the lack of reliability is only on a particular feeder or whether it is relative to each customer's perception of their needs (chilling and freezing processes can withstand long outages, much longer than primary processing).

Overall, most customers have expressed at least some concern about surges and spikes causing process control and lighting difficulties.

There have also been a few comments about the lack of up-to-date contact details for Eastland Network. This is a particular issue during outages when an assessment of likely restoration time governs the contingency tactics customers may adopt. One suggestion made was to have a dedicated phone number with a recorded message.

There have also been a few concerns expressed about the single-tower dual-circuit Transpower lines into Gisborne, and the threat to both capacity and security this represents.

4.4 Processes for acting on these responses

Eastland Network has adopted the following processes for acting on customer responses.

- Eastland Network will consider the above customer comments during the updating of the 10 year asset management plan to be published this year.
- Eastland Network's asset management plan (AMP) will be modified to include the customer consultation phase in all major decisions concerning capacity and supply security.



Audit report

To the readers of the threshold compliance statements of Eastland Network Limited

We have examined the attached statement on pages 4 and 5 and related information on pages 10 to 13, being a threshold compliance statement in respect of a price path and quality threshold that was prepared by Eastland Network Limited for assessment on 31 March 2004 and dated 17 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 Eastland Network Limited to prepare certificates that confirm the compliance, or otherwise, of Eastland Network 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 statements certified by the Directors and report our opinion to you.

Basis of opinion

Our audit included examination, on a test basis, evidence relevant to the amounts and disclosures in the attached threshold compliance statements. It also includes assessment of the significant estimates and judgements, if any, made by the lines business in the preparation of the threshold compliance statements and 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. 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.

Our firm has provided ODV valuation services to Eastland Network Limited in 2002. This matter has not impaired our independence as auditors of the threshold compliance statements. The firm has no other relationship with, or interest in, Eastland Network 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 and belief, the attached threshold compliance statement on pages 4 and 5 and related information on pages 10 to 13 of Eastland Network Limited, has been prepared in accordance with the Notice, and gives a true and fair view of the performance of Eastland Network Limited as required by the Notice against the thresholds set out in the Notice for assessment on 6 September 2003.

Our audit was completed on 17 May 2004 and our opinion is expressed as at that date.



Christchurch
17 May 2004



Member Firm of
KPMG International

4. Directors' certificate

SCHEDULE 2

FORM OF CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

We, Trevor William Taylor and Roger Neil Taylor, being directors of Eastland Network Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Eastland Network Limited, and the related information, prepared for the purposes of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the requirements of that notice.



A handwritten signature in blue ink, appearing to be 'T. Taylor', is written over two horizontal dotted lines. The signature is slanted upwards to the right.

Dated 17 May 2004.

Appendix 1 – Price Path Threshold

$$SP_{i,2004}Q_{i0} - C_{T2004} - C_{R2004} \quad \text{£} \quad SP_{i,0}Q_{i0} - C_{T2003} - C_{R2003}$$

$P_{i,2004} Q_{i0}$	Notional annual line service revenue derived from base quantities (from tariff schedules in Appendix 2)	\$20,271,813
	Add annual revenue from other non-contestable services (note x)	\$76,967
	Total	\$20,348,780

C_{T2004}	Transpower charges	\$4,878,080
	Avoided transmission costs	\$1,417,782
	Total	\$6,295,862

C_{R2004}	Territorial rates	\$92,353
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$$\sum P_{i,2004} Q_{i0} - C_{T2004} - C_{R2004} \quad \$13,960,565$$

$P_{i,0} Q_{i0}$	Notional annual line service revenue derived from base quantities (from tariff schedules in Appendix 2)	\$20,271,813
	Add annual revenue from other non-contestable services	\$76,967
	Total	\$20,348,780

C_{T2003}	Transpower charges	\$4,425,939
	Avoided transmission costs	\$1,639,638
	Total	\$6,065,577

C_{R2003}	Territorial rates	\$110,947
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$$\sum P_{i,0} Q_{i0} - C_{T2003} - C_{R2003} \quad \$14,172,256$$

\$13,960,565 £ \$14,172,256



A1.2 Tariff schedule for period 1 May 2003 to 31 March 2004

Tariff	ICP #	kWh	Notional revenue
DHD0010	5,927	34,389,200	\$2,576,858
DHD0030	6,830	48,011,901	\$3,998,265
DLD0010	283	1,640,876	\$152,907
DLD0030	3,057	23,124,418	\$2,334,950
DMD0010	571	3,455,177	\$289,087
DMD0030	2,612	19,194,608	\$1,767,327
NHD0003	59	306,821	\$28,465
NHD0010	125	1,569,881	\$139,765
NHD0030	1,184	21,805,385	\$1,967,752
NHD0100	193	17,006,500	\$752,520
NHD0300	26	4,233,086	\$180,942
NHD1000	18	17,798,058	\$519,599
NHD4500	3	30,231,555	\$744,672
NHDLE2K	392	322,242	\$225,195
NHDT100	8	3,348,664	\$88,877
NHDT300	26	15,130,154	\$424,137
NLD0003	18	98,092	\$12,259
NLD0010	122	560,130	\$86,952
NLD0030	955	9,506,381	\$1,255,218
NLD0100	21	1,280,015	\$83,367
NLD0300	5	652,994	\$37,666
NLDLE2K	1,385	888,642	\$804,956
NMD0003	16	68,854	\$7,708
NMD0010	62	289,915	\$35,254
NMD0030	682	7,640,360	\$867,568
NMD0100	33	2,539,659	\$136,236
NMD0300	2	413,751	\$18,274
NMD1000	1	451,638	\$13,877
NMD4500	1	13,609,506	\$263,686
NMDLE2K	801	517,770	\$457,474
Total	25,418	280,086,233	\$20,271,813

A1.3 Non-contestable services

Non-contestable services are the provision of ripple relays and the connection of customers to existing Eastland Network owned LV reticulation.

A1.4 Avoided transmission costs

The company has undertaken generation and other activities that substitute for the use of the transmission system. Avoided transmission costs include the following costs in relation to hydro, diesel generation and load control assets and operations of the company:

- Direct operating costs;
- Maintenance costs;
- Depreciation; and
- Cost of capital.

In the previous reporting period, indirect allocated costs were included in this calculation. These have not been included in the current calculation on the basis that these are an internal allocation of other network costs rather than external costs incurred in providing avoided transmission. The amount of these indirect costs for the year ended 31 March 2004 was \$139,769, compared to the estimate of \$143,889 included in the previous reporting period.

A1.5 Transpower charges

Transpower charges are stated net of rebates, to the extent that the rebate has not formed part of the price setting methodology to determine electricity consumer charges, as published by the company.

Appendix 2 – Quality Threshold

A2.1 SAIDI

$$SAIDI_{2004} \text{ £ } \frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5}$$

	Class B	Class C	Total(B+C)	Comment
<u>SAIDI</u> ₁₉₉₉	164.46	239.55	404.01	As per Information Disclosure 98/99
<u>SAIDI</u> ₂₀₀₀	47.95	183.43	231.38	As per Information Disclosure 99/00
<u>SAIDI</u> ₂₀₀₁	24.12	642.95	667.07	As per Information Disclosure 00/01
<u>SAIDI</u> ₂₀₀₂	75.89	111.98	187.87	As per Information Disclosure 01/02
<u>SAIDI</u> ₂₀₀₃	56.95	285.54	342.49	As per Information Disclosure 02/03
	369.37	1463.45	1832.82	
Divided by 5	73.87	292.69	366.56	

	Class B	Class C	Total(B+C)	Comment
<u>SAIDI</u> ₂₀₀₄	37.75	292.95	330.70	Will be as per Information Disclosure 03/04

330.70 £ **366.56** ✓

A2.2 SAIFI

$$SAIFI_{2004} \text{ £ } \frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5}$$

	Class B	Class C	Total(B+C)	Comment
<u>SAIFI</u> ₁₉₉₉	1.33	2.83	4.16	As per Information Disclosure 98/99
<u>SAIFI</u> ₂₀₀₀	0.45	2.58	3.03	As per Information Disclosure 99/00
<u>SAIFI</u> ₂₀₀₁	0.42	3.59	4.01	As per Information Disclosure 00/01
<u>SAIFI</u> ₂₀₀₂	0.29	2.28	2.57	As per Information Disclosure 01/02
<u>SAIFI</u> ₂₀₀₃	0.39	2.54	2.93	As per Information Disclosure 02/03
	2.88	13.82	16.70	
Divided by 5	0.58	2.76	3.34	

	Class B	Class C	Total(B+C)	Comment
<u>SAIFI</u> ₂₀₀₄	0.20	1.73	1.93	Will be as per Information Disclosure 03/04

1.93 £ **3.34** ✓

Appendix 2.3 – Policies and Procedures used for recording SAIDI and SAIFI Statistics

Procedures;

Connection Conductivity

Individual network connections are linked to a specific distribution transformer via GIS and ICP Billing system data outputs.

Connection information and network conductivity is updated in GIS and ICP Billing systems from Network Alteration Application forms and/or as built Network Alteration data returns.

GIS connection counts per network segment are updated and reviewed against ICP Billing system data six monthly.

The process of Outage Notification to energy retailers provides an audit of connection and conductivity data accuracy.

Responsibility: Project Engineers and Information System Manager

Interruption Data Capture

A Supply Interruption Data Input Form is completed for all notifiable outages. Data is captured in accordance with the definitions and requirements of the Electricity Disclosure Requirements 2004 and Reliability Performance Measurement Manual 1994.

Responsibility: System Operator

Interruption Data Analysis and Reporting

Interruption data entered into Outage Database and used for internal and external reporting.

Responsibility: GM Operations

Policies

Collection and analysis of interruption data is to be completed in accordance with Electricity Disclosure Requirements 2004 and Reliability Performance Measurement Manual 1994.

Monthly comparison of actual interruption performance with Asset Management Plan and Statement of Corporate Intent targets reported to and reviewed by the Board of Directors.

Annual audits are undertaken on Conductivity, Interruption data capture and reporting processes to determine the accuracy and compliance of deliverables.

Appendix 3 – Customer Communication

Customer comments

Not happy with supply reliability – sometimes getting 2 or 3 outages per year. Eastland Network is working on another feeder for additional capacity which would also provide some additional reliability, but we are not happy with progress to date.

Supply reliability is acceptable. Eastland Network has expressed concern that we only have a single feeder. We have considered this concern and may purchase additional reliability in conjunction with additional capacity if the business expands.

We are not particularly happy with supply reliability and could be interested in additional reliability depending on likely price.

Supply reliability is good: We currently have two supplies to provide capacity. We may well be interested in additional reliability but the final decision would need to be made in Hastings.

Reliability is acceptable: We already have two feeders capable of supplying 100% of demand as well as a generator capable of supplying 30% of demand. We would not be interested in additional reliability.

We are reasonably happy with supply reliability, but could be interested in additional reliability depending on cost.

We are very happy with existing supply reliability. We might be interested in additional reliability, although we have a generator which can supply a limited number of activities.

Existing supply is very reliable, and we also have stand-by battery banks that provide 30 minutes of emergency lighting and basic services. We wouldn't be interested in additional reliability

Reliability has really improved over the last 3 to 4 years, so we would not be interested in additional reliability.

We are happy enough with existing reliability. We would not be interested in additional reliability.

We are not happy with existing supply reliability, and would be interested in additional reliability depending on price.

We are happy enough with existing supply reliability, so would not be interested in additional reliability.

We have excellent supply reliability, but we need more capacity as the business is expanding

Reliability is very good. However, our insurers have queried us about major contingencies and we may consider obtaining a back-up generator

Reliability has been good lately – certainly an improvement over time. We would not be interested in additional reliability

We have encountered no problems with existing supply reliability, so would not be interested in having additional reliability.

We have no problems with existing supply reliability

Reliability is very good, and we already have two sources of supply. We would not be interested in additional reliability

We have no problems with existing supply reliability, so we would not be interested in additional reliability.