

## Threshold Compliance Statement

### Cover Note/Overall Summary

Vector's compliance statement for the threshold assessments as at 31 March 2004 is made up of:

- this cover note (overall summary);
- Auditor's report (appended to this cover note given its overarching relevance);
- Directors' certificate (appended to this cover note given its overarching relevance);
- a document addressing the price path threshold titled *Threshold Compliance Statement: Section 1 - Price Path Threshold*;
- a document addressing the quality threshold titled *Threshold Compliance Statement: Section 2 – Quality Threshold*; and
- all supporting information for the price path and quality threshold documents, in the form of specific appendices or information provided to the Commission, without specific reference (but referred to generally) in Sections 1 and 2.

Vector's compliance against the thresholds should be assessed on the basis of all of the above documents.

Specific summaries for the price path and quality thresholds are provided in the respective documents. This cover note provides a brief summary across both thresholds.

## **Price path threshold**

Vector breaches the price path threshold by \$76,927.

In Vector's view, the Commission should take no action on Vector's breach given the breach is immaterial in nature (0.028% of allowable notional revenue); and the breach is *solely* the result of a small discrepancy between budgeted and actual transmission charges (an event beyond Vector's reasonable control).

After the first price path threshold assessments (as at 6 September 2003), the Commission decided to take no further action for a number of breaches of the same nature as that just described. In Vector's view, the Commission should quickly come to the same conclusion for this assessment.

## **Quality threshold**

### Reliability criterion

Vector breaches the reliability criterion of the quality threshold with respect to both SAIDI and SAIFI by 18 customer minutes (22.14% of target) and 1.313 customer interruptions (10.23% of target) respectively.

Vector's breach is due to storms (being an example of extreme events), including those during October 2003 and February 2004. The Commission has indicated that extreme events will be considered as part of any initial post-breach investigation and, if accepted and the sole reason for the breach, no further investigation would result.

Vector has set out in its compliance statement how 'storms' have been defined. Vector's analysis of the removal of the impact of storms has been presented on the basis of storm impacts being removed from the assessment year in entirety, as well as storm impacts being removed to a lesser extent (specifically, only to the extent that the impact of storms in the assessment year was greater than the 5-year annual average impact of such storms).

The reason for presenting two approaches is that neither the *Gazette*, nor the relevant Commission decision papers, make clear whether the removal of extreme events should relate to just the assessment year in question, or the assessment year and some corresponding adjustment to the benchmark 5-year average (or a conceptually equivalent approach). Vector has presented both approaches, but favours the first.

With the storms removed in entirety, Vector would have complied with the reliability criterion.

With the modified approach (storms removed in the assessment year to a lesser extent), Vector would still exceed the SAIDI and SAIFI targets by 3.5 customer minutes (4.06% of target) and 0.016 customer interruptions (1.23% of target). In Vector's view, this residual non-compliance is not material and the result of natural variability in the underlying data. Vector has already provided analysis to the Commission, in the context of setting thresholds, which demonstrated that a margin of 30% is required above reliability targets to account for natural variability in reliability statistics. In response to Vector's analysis, the Commission indicated it would consider variability at the time of assessments, which the Commission must now do.

It is Vector's view that the Commission should take no further action for Vector's breach of the reliability criterion of the quality threshold.

#### Consumer engagement criterion

Vector considers it complies with the various requirements of the consumer engagement criterion, given the extensive work it is doing with customers on a range of fronts. Vector has described and provided extensive information to demonstrate this to the Commission.

For the compliance statement, Vector conducted a general survey of consumer groups and retailers with the intent of, inter alia, getting a better understanding of customer engagement by others, which could then be built from to tailor other, specific initiatives in future (such as surveys, including working with other groups where appropriate). The general consensus from Vector's survey was that engagement with consumers on price-quality trade-offs was inherently difficult, and that consumers were not generally prepared

to pay for increases in quality (a result borne out by other, earlier survey work that Vector has also referred to in its compliance statement).

While Vector has made reference to previous price-quality trade-off surveys and work in that area (either by itself, or other parties), Vector did not undertake a specific survey on willingness to pay for price-quality trade-offs for this assessment. Instead, in addition to the general survey summarised above, Vector focused on demonstrating well-developed business processes directed at understanding and responding to consumers' preferences. The Commission has itself noted that such processes are more important than simply conducting a survey.

In Vector's view, a price-quality trade-off survey is not a silver bullet to understanding consumers' willingness to pay for such trade-offs. Instead, the Commission must holistically consider consumer engagement generally and the sophistication of business processes aimed at understanding consumer preferences and requirements. Vector considers itself to be an industry leader in consumer engagement and is continually exploring ways and means of further advancing its work in this important area.



### **To the readers of the threshold compliance statements of Vector Limited**

We have examined the attached statement in sections 1 and 2 including appendices 1 to 6, being a threshold compliance statement in respect of a price path threshold that was prepared by Vector Limited for assessment on 31 March 2004 and dated 21 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 Vector Limited to prepare certificates that confirm the compliance, or otherwise, of Vector 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, of evidence relevant to the amounts and disclosures in the attached threshold compliance statements. It also included 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 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.

Partners and employees of our firm may deal with Vector Limited on normal terms within the ordinary course of trading activities of the business of the Company or Group. This has not impaired our independence as auditors. The firm has no other relationship with or interests in the Company or any of its subsidiaries.

Without qualifying our opinion, we draw attention to paragraphs 4.15, 4.13 and 7.5 of the statement where Vector Limited have applied clause 5(4), as permitted by the Notice, to the following categories of revenue;

- 4.15 Vector Electricity large commercial revenue
- 4.13 Reactive charge to customers with a poor power factor
- 7.5 New connection fees

In our view for each of the above categories of revenue,

- (a) it is not practicable to determine whether the revenue has complied with the subclauses concerned (*subclauses 5(1) to (3)*) on the basis that the quantities cannot be definitively identified; and
- (b) Vector Limited has demonstrated beyond reasonable doubt that the substance of those subclauses has been complied with as the prices for all of the above categories of customer have been unchanged since 1 April 2001.



### 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 Vector Limited and related information in section 1 and 2 including appendices 1 to 6

- has been prepared in accordance with the Notice; and
- gives a true and fair view of the performance of Vector Limited

as required by the Notice against the thresholds set out in the Notice for assessment on 31 March 2004.

Our audit was completed on 21 May 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in blue ink, appearing to read 'KPMG'.

Auckland

## Directors' Certificate

### FORM OF CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

We, DONALD GEORGE MCLAREN and BRIAN KENNETH RIMMER,  
being directors of Vector Limited certify that, having made all reasonable enquiry,  
to the best of our knowledge and belief, the attached threshold compliance  
statement of Vector Limited, and related information, prepared for the purposes  
of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the  
requirements of that notice:

  
\_\_\_\_\_  
D.G. MCLAREN  
Vector Director

  
\_\_\_\_\_  
B.K. RIMMER  
Vector Director

21/5/04  
\_\_\_\_\_

Date

21/5/04  
\_\_\_\_\_

Date