



Commerce Act (Electricity Lines Thresholds) Notice 2003

Threshold Compliance Statement

24 October 2003

Notification of compliance with price path threshold for the first
assessment date (6 September 2003)

Foreword

Vector submits its first threshold compliance statement to the Commerce Commission, which demonstrates Vector's compliance with the Commission's price path threshold.

In demonstrating its compliance, Vector has carefully considered and responded to the Commission's requirements.

In broad terms, Vector, along with other lines businesses, have been required to demonstrate to the Commission that prices have not increased, in nominal terms, since the relevant legislation was passed (8 August 2001). Vector is particularly proud of this result given it has, at the same time, improved its level of customer service through further investment in its networks including the introduction of cutting edge technology.

Like other companies, Vector takes compliance with regulatory requirements seriously. To this end, the Commission's thresholds have the practical effect of regulatory control. This underscores the importance of the Commission carefully setting threshold parameters to apply from 1 April 2004.

Vector has recently made constructive suggestions to the Commission on the appropriate level of the "X-factor" for the next price path threshold. Significant analysis suggests the Commission should take a conservative approach to setting the next threshold parameters, to mitigate the risk of thresholds that result in under-investment, or unwarranted and very expensive regulatory inquiries. Without properly recognising the limitations now, the Commission could also group companies in ways that are inherently unfair. A conservative approach to setting parameters is also consistent with the positive performance of the sector relative to its international peers.

Vector is confident that it has provided the Commission with the necessary information to verify its compliance with the price path threshold. However, should the Commission require additional information or clarification, we would be happy to provide this.

Yours sincerely



Mark Franklin
Chief Executive Officer

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Introduction

- 1.1 This threshold compliance statement (“the Statement”) is submitted by Vector Limited (“Vector”) pursuant to s7(1)(a)(i) of the Commerce Act (Electricity Lines Thresholds) Notice 2003 (“the Notice”).
- 1.2 The Notice relates to the performance of electricity lines businesses as part of the Commerce Commission’s development and operation of a regulatory regime for such businesses, pursuant to Part 4A of the Commerce Act 1986.
- 1.3 More specifically, the Notice sets “thresholds”, which, in effect, are a screening mechanism for the commission to identify lines businesses whose performance may warrant further investigation. The Notice also requires lines businesses to publicly disclose information relevant to the assessment of their performance against the thresholds.
- 1.4 The Statement pertains to the requirements of the Commission’s price path threshold for the assessment date of 6 September 2003. In broad terms, Vector, along with other lines businesses, have been required to demonstrate that prices (as of 6 September 2003) have not increased, in nominal terms, since the relevant legislation was passed (8 August 2001). As discussed and demonstrated below, Vector considers it has complied with the relevant requirements.
- 1.5 Tables contained in the statement are aggregates of the attached appendices that reflect the price multiplied by the appropriate quantity for each pricing category.

Company overview

- 1.6 Vector is a major infrastructure provider in New Zealand, owned by the Auckland Energy Consumer Trust. Vector has total assets of approximately \$3 billion comprising the following businesses:
 - (a) electricity distribution businesses located in Auckland, North Auckland and Wellington. Vector is the largest electricity distributor with 627,000 consumers, representing 42% of the national market. The Auckland pricing region is priced under the Vector Electricity brand whilst the Northern, Auckland Embedded and Wellington pricing regions are priced under the UnitedNetworks brand
 - (b) a gas distribution business in the Auckland region with 68,000 consumers;
 - (c) a telecommunications business in Auckland and Wellington (Tangent);

- (d) a majority interest in the Stream Information Partnership which provides metering services;
 - (e) an industry training organisation, Utilitech; and
 - (f) a joint venture interest in Treescape, a tree and vegetation management company.
- 1.7 Clearly, Vector is involved in a range of activities that do not constitute electricity distribution and are not related to it. This is important in the context of the Notice as, while Vector is subject to the regulatory regime, only a subset of its services are relevant to the Commission's consideration (i.e. electricity distribution goods or services or services directly related to electricity distribution).
- 1.8 As provided for in the Notice (definition of 'specified services'), Vector has excluded a range of services from this Statement. Where services that are related to electricity distribution are excluded, Vector has, as required, demonstrated why there is effective competition for the provision of those services
- 1.9 Vector has taken a conservative approach to service exclusions. Given Vector considers it has complied with the requirements of the Notice and the relatively short time frame available to prepare the statement, it has not sought to exclude, from this compliance demonstration, a range of other services and revenue that could potentially and appropriately be excluded (e.g. Some services provided to large customers and charter payments). As such, Vector makes clear to the Commission that the service exclusions in the Statement should not be viewed in any way as a precedent for service exclusions that may be made in future compliance statements. Vector, therefore, reserves its right to justify further service exclusions to the Commission in the future.
- 1.10 The information contained in this Statement has been prepared for the express purpose of complying with the requirements of the Notice. This statement has not been prepared for any other purpose. Vector Limited expressly disclaims any liability to any other party who may rely on this statement for any other purpose.

Statement of compliance

2.1 Vector confirms compliance with the price path threshold as defined in s5(1)(a) and s5(1)(b) of the Notice.

2.2 As required by s7(1)(a)(i) of the Notice, the Statement provides evidence in the form of revenues, prices, list of excluded services (and the reasons and supporting evidence for excluding these services), and data and information that supports Vector's confirmation of compliance. As required by s7(1)(a)(iii), the Statement also includes such information as Vector considers is sufficient to enable the Commission to properly determine whether or not the threshold concerned has been breached.

Public disclosure

2.3 As required by s7(1), Vector has published the Statement on the Internet, including:

- a report on the Statement signed by an auditor (KPMG), as required by s7(1)(b) of the Notice (the Auditor's Report); and
- a certificate duly signed by two Directors of Vector, as required by s7(1)(c) of the Notice (the Certificate).

2.4 As required by s7(8), Vector hereby advises the Uniform Resource Locator for accessing the Statement, the Auditor's Report and the Certificate to be http://www.vectornetworks.co.nz/information_disclosure/electricity_thresholds.php

2.5 As required by s7(1), Vector has also publicly disclosed the Statement (containing the Auditor's Report and the Certificate) by (as required by the definition of 'publicly disclose') making it available at its principal office (101 Carlton Gore Road, Newmarket, Auckland). Vector will also provide any person requesting the Statement with a copy at a charge reasonably required to cover the cost of provision (as permitted by s57W of the Commerce Act).

First price path threshold requirement (s5(1)(a) of the Notice)

3.1 Vector hereby confirms compliance with the requirement of s5(1)(a) of the Notice.

3.2 As required by s5(1)(a), lines businesses are, in effect, required to demonstrate that their prices (as at 6 September 2003) in aggregate are no greater than the lowest level of their prices, in aggregate, since the legislation was enacted (8 August 2001). As summarised in the table below, Vector has performed the necessary calculations required to demonstrate its compliance with this requirement.

Notional revenue at 6 September 2003 (left hand side of equation)	Reference Paragraph	\$million
The sum of the prices at 6 September 2003 multiplied by the corresponding base quantities for the year ending 31 March 2003	5.8	388.955
The sum of transmission charges budgeted for the year ending 31 March 2004	6.4	(109.010)
The sum of any rates budgeted for the year ending 31 March 2004	6.5	(5.339)
Total Notional revenue at 6 September 2003		274.606

Minimum notional revenue between 8 August 2001 and 6 June 2003 (right hand side of equation)	Reference Paragraph	\$million
The sum of the prices at 1 April 2003 (the 'first reference date' (discussed below)) multiplied by the corresponding base quantities for the year ending 31 March 2003	5.8	388.955
The sum of transmission charges budgeted for the year ending 31 March 2004	6.4	(109.010)
The sum of rates budgeted for the year ending 31 March 2004	6.5	(5.339)
Total minimum notional revenue		274.606

3.3 Compliance with s5(1)(a) requires lines businesses to establish their 'first reference date', i.e. the date that gives their lowest level of notional revenue between 8 August 2001 and 6 June 2003. As summarised in the table below, Vector has performed the necessary calculations required to determine and demonstrate its first reference date.

3.4 To determine the first reference date, Vector used the prices applicable at the dates specified by the Notice (8 August 2001 and 6 June 2003) and those dates where a change to Vector's rates has occurred (1 April 2002 and 1 April 2003).

3.5 The Transmission and Rates quantities are those specified by the threshold as applicable to the pricing periods that is 1 April 2001 to 31 March 2002, 1 April 2002 to 31 March 2003 and 1 April to 31 March 2004.

3.6 Vector's prices have not changed between 1 April 2003 and the publication date of the Notice

3.7 First Reference Date

Price applicable at the stated date	08 August 2001 \$million	01 April 2002 \$million	01 April 2003 \$million	06 June 2003 \$million
Price x Quantity [paragraph 3.4]	401.397	386.620	388.955	388.955
Transmission [paragraph 3.5]	(97.059)	(106.278)	(109.010)	(109.010)
Rates [paragraph 3.5]	(3.950)	(3.950)	(5.339)	(5.339)
Total Notional Revenue	300.387	276.392	274.606	274.606

3.8 The lowest value being assigned to notional revenue for Vector is \$274.606 million.

3.9 The first reference date is therefore 1 April 2003.

Second price path threshold requirement (s5(1)(b) of the Notice)

4.1 **Vector hereby confirms compliance with the requirement of s5(1)(b) of the Notice.**

4.2 As required by s5(1)(b), lines businesses are in effect required to demonstrate that their prices for the specified services have not increased since the Notice was published. As summarised in the table below, Vector has performed the necessary calculations required to demonstrate its compliance with this requirement.

Notional revenue at 6 September 2003 (left side of the equation)	Reference Paragraph	\$million
The sum of the prices at 6 September 2003 multiplied by the corresponding base quantities for the year ending 31 March 2003	5.8	388.955

Notional revenue at 6 June 2003 (right side of the equation)	Reference Paragraph	\$million
The sum of the prices at 6 June 2003 multiplied by the corresponding base quantities for the year ending 31 March 2003	5.8	388.955

4.3 Compliance with s5(1)(b) requires lines businesses to establish their 'second reference date', i.e. the date that gives their highest level of notional revenue between 7 June 2003 and 6 September 2003. As Vector's prices have not changed since 1 April 2003 and the first assessment date (6 September 2003), the notional revenue at the two dates is also unchanged (and, therefore, Vector complies with this requirement).

4.4 Second Reference Date

Date	01 April 2003 (\$million)	06 June 2003 (\$million)	06 September 2003 (\$million)
Price x Quantity	388.955	388.955	388.955

4.5 The highest value being assigned to notional revenue for Vector is \$388.955 million.

4.6 The second reference date is therefore any date between 6 June 2003 and 6 September 2003.

Specified Services

- 5.1 To demonstrate compliance, all prices for specified services, multiplied by the appropriate base quantities, need to be summed.
- 5.2 The tables below set out all revenue sources for Vector with the corresponding notional revenues for the relevant dates or, where services are excluded, an explanation for why this is so.

Specified Services

		Note	08 August 2001 (\$million)	01 April 2002 (\$million)	01 April 2003 (\$million)	06 June 2003 (\$million)
5.3	Standard Line Charge Revenue – Vector Electricity Region	A, C	145.348	125.272	125.272	125.272
5.4	Standard Line Charge Revenue – UnitedNetworks Region	A, B, D	204.453	205.687	207.529	207.529
5.5	Asset Specific & Reactive – UnitedNetworks Region	E, F	44.713	45.517	45.572	45.572
5.6	Non-Standard & Large Commercial - Vector Electricity Region	G, H	6.883	8.830	8.830	8.830
5.7	Utility Rates Recovery	I	0.000	1.314	1.752	1.752
5.8	Total Specified Services		401.397	386.620	388.955	388.955

Notes Relating to Specified Services

	Note	
5.9	A	<p>Standard Line Charge Revenue</p> <ul style="list-style-type: none"> • Mass Market: Vector Electricity and UnitedNetworks • These are the residential and small commercial end-consumers who have a fixed and variable component to their charging. • For each pricing category or load group for 31 March 2003 the number of end consumers assigned to that load group and the annual energy of all consumers assigned to that load group were retrieved from the appropriate information systems. • The information systems are Revenue Management System (RMS) for Vector Electricity and Network Information System (NIS) for UnitedNetworks. • The resulting quantities were then multiplied by the price applicable to the load group/pricing category to determine the notional revenue for each period. • These multiplications were carried out in MS Access or MS Excel
5.10	B	<p>Standard Line Charge Revenue - Version 2 (2001) Rates</p> <ul style="list-style-type: none"> • From 1 April 2001 UnitedNetworks introduced a standard use of network agreement, incorporating service level standards and charter payments for non-compliance. • New rates were effective 1 April 2001 and were linked with this use of network agreement. • Two retailers notified their intent to remain with existing use of system arrangements and hence chose not to adopt the new low fixed line charge rates. As a result, the old price structure Version 2 rates were kept in place, adjusted for transmission cost changes. • The notional revenue calculations applied by Vector include only the new low fixed residential/small commercial rates, and does not apply the version 2 rates because: <ul style="list-style-type: none"> • over 90% of ICPs in the Northern and Wellington networks were on the new rates as at 1 August 2001. • The quantities for the year ending March 2003 include all ICPs mapped to the new price categories. • By use of the lower new rates Vector can demonstrate compliance with the substance of s(5)(1) to s(5)(3) as the rates provide the lowest price as at August 2001. • Vector therefore believe this to be a conservative approach.
5.11	C	<p>Standard Line Charge Revenue – Vector Electricity Region</p> <ul style="list-style-type: none"> • For detail of each price category applicable to the Vector Electricity region see Appendix 1. Standard Line Charge Revenue Vector Electricity

5.12	D	<p>Standard Line Charge Revenue – UnitedNetworks Region</p> <p>For detail of each charge code applicable to the UnitedNetworks region see Appendix 2. Standard Line Charge Revenue UnitedNetworks</p>
5.13	E	<p>Asset Specific: UnitedNetworks</p> <ul style="list-style-type: none"> • Some customers with connected capacities in excess of 300KVA in the Wellington and Northern Regions have asset specific charges. Their line charges are assessed annually and charged as daily fixed line charges. • There are 6 line charge categories <ol style="list-style-type: none"> 1) Return on ODV: This is applied as a percentage of the customers Optimised Deprival Value of assets employed. (ODV) 2) O&M: This is applied as a percentage of either the customers Optimised Replacement cost of Assets employed (ORC) or (ORC-ODV) 3) Indirect Cost: This is applied as a percentage of the customers ORC 4) Fixed charge: This is applied to the customers Anytime Maximum Demand (AMD) corrected for Line losses when applied to transmission fixed cost. 5) Interconnection Transmission charge: This is applied to the customers On-peak Demand (OPD) and corrected for line losses. 6) Variable Transmission Charge: This is applied to the customers energy use (kWh) and corrected for losses. • The customers ODV, ORC and depreciation are determined as an AMD apportionment of the employed assets ODV, ORC and depreciation and are therefore treated as a base quantity for this type of pricing as well as AMD, OPD and energy. • The above charging mechanism was introduced in Wellington Pricing Region on 1 April 2003. Each of these customers has an individual price and therefore been treated as an individual pricing category. • In the period from 8 August 2001 to 31 March 2003 these prices were on standard pricing based on capacity and demand (Coincident Demand and Anytime Maximum Demand). • The measures for both types of price have been recorded as base volumes for these customers and the relevant measure applied to the price type at each calculation date. • See Appendix 3 – Non Standard Vector Electricity & Asset Specific UnitedNetworks

5.14	F	<p>Reactive Charge to Customers with Poor Power Factor</p> <ul style="list-style-type: none"> • A published reactive charge is applied to those customers with a fixed, active demand-based line charge (\$/kW), only in the UnitedNetworks regions. The charge is fully variable, and is avoidable. • The structure and application of this charge is such that the notional revenues cannot be sensibly determined due to the fact that the quantities cannot be definitively identified. Compliance with the substance of s5(1)(a) and s5(1)(b) has been demonstrated through an alternative approach, namely that the rate and its application has been unchanged since before 8 August 2001 • Confirmation is provided by means of the attached UnitedNetworks pricing schedules – See Appendix 5 Pricing Schedules – UnitedNetworks
5.15	G	<p>Non-Standard: Vector Electricity</p> <ul style="list-style-type: none"> • Vector’s non-standard contracts fall into four categories: <ol style="list-style-type: none"> 1. Fixed Monthly Charge 2. Standard Charges less Fixed Discount 3. Street lighting 4. Embedded generation • See Appendix 3 – Non Standard Vector Electricity & Asset Specific UnitedNetworks
5.16	H	<p>Large Commercial: Vector Electricity</p> <ul style="list-style-type: none"> • Meaningful information is not currently available from billing agents or Vectors RMS to provide accurate quantities. • Any quantity provided at the present time can only be derived from revenue and price. • Vector has demonstrated beyond reasonable doubt that these prices have remained unchanged since September 1999. • Using the Commissions formula the notional revenue from these sites would be identical at any time from September 1999 onwards. • This notional revenue would therefore have no bearing on Vectors compliance with the Notice. • In accordance with s5(4), because of this lack of information and the calculations being clearly meaningless Vector has demonstrated beyond reasonable doubt compliance with the substance of s5(1)(a) and s5(1)(b) by use of an alternative approach that has equivalent effect. • Prices for Large Commercial have been unchanged since September 1999. Confirmation of this is available in the attached Large Commercial Network Line Charges pricing schedules - Appendix 4 Pricing Schedules – Vector Electricity.

5.17	I	<p>Utility Rates Recovery</p> <ul style="list-style-type: none"> • Several territorial local authorities in the greater Wellington region introduced a utility rates levy from 1 July 2002. • Due to the timing of their introduction, and in light of ongoing increases as other councils seek to introduce these; a levy was introduced by Vector such that the utility rates cost would be recovered transparently through a separate fixed daily charge applied to each point of connection to the network. • In accordance with UnitedNetworks policy of not altering rates more than once in any twelve months the levy was introduced by Vector on 1 April 2003. • The phasing of the levy in relation to the date of introduction of the utility rates means that recovery of the total imposed rates between 1 July 2002 and 30 June 2003 occurs in the period from 1 April 2003 to 31 March 2004. Any increase in rates effective from 1 July 2003 will be recovered from 1 April 2004. • The levy includes an administration fee to recover the additional costs imposed on Vector for providing this rate collection service on behalf of the councils (finance costs due to phasing of the rates recovery). • Rates recovery levy revenue for 1 April 2003 to 31 March 2004 (recovering for the rates imposed for the 21 months July 2002 to March 2004) is apportioned as shown below • (21 months) = \$3,066,641 Levy Revenue Applied to period 1 July 2002 to 31 March 2003 • (9 months) = \$1,314,275 Levy Revenue Applied to period 1 April 2003 to 31 March 2004 • (12 months) = \$1,752,366
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Pass Through Costs

- 6.1 The tables below set out all pass through costs, that is transmission charges and any rates paid or payable by Vector.
- 6.2 To calculate the first reference date, Vector used the rates applicable at the dates specified by the Notice (8 August 2001 and 6 June 2003) and those dates where a change to Vector's rates has occurred (1 April 2002 and 1 April 2003).
- 6.3 The transmission and rates quantities are those specified by the threshold as applicable to the pricing periods that is 1 April 2001 to 31 March 2002, 1 April 2002 to 31 March 2003 and 1 April to 31 March 2004

Pass Through Costs

		Note	08 August 2001 (\$million)	01 April 2002 (\$million)	01 April 2003 (\$million)	06 June 2003 (\$million)
6.4	Transmission [paragraph 6.2]	J, K	(97.059)	(106.278)	(109.010)	(109.010)
6.5	Utility Rates Summary [paragraph 6.2]	L	(3.950)	(3.950)	(5.339)	(5.339)

Notes Relating to Pass Through Costs

	Note	
6.6	J	<p>Transmission</p> <ul style="list-style-type: none"> • During 2000 Vector Electricity unbundled the transmission costs. • As at 8 August 2001, all transmission costs were fully recovered through the line charges of UnitedNetworks. • On 1 April 2002 UnitedNetworks unbundled the transmission costs. • Ancillary service charges and loss rental rebates are now passed through to the retailers transparently taken from the Transpower invoices and allocated to retailers based on market share at each Transpower point of connection. • As the loss rentals reflect the over recovery of loss and constraint charges by the NZEM in the previous month, the April 2002 loss rentals received for UnitedNetworks regions was retained, and netted off transmission costs for the period to 31 March 2003 in the notional revenue calculations.

6.7	K	<p>Transmission</p> <ul style="list-style-type: none"> Transmission charges for the period ending 31 March 2004 is based on actual plus forecast as this provides the most reasonable assessment of the expected transmission costs.
6.8	L	<p>Utility Rates Summary</p> <ul style="list-style-type: none"> The total cost of rates to Vector for year ending 01/02 and 02/03 are the total expensed in the financial year 31/03/02 and 31/03/03 respectively, excluding Gas and Administration and Commercial

Treatment of Acquisitions

7.1	<p>Acquisition of UnitedNetworks</p> <ul style="list-style-type: none"> On 15 November 2002 Vector successfully completed its takeover of UnitedNetworks Limited and became the owner of 100% of the shares in UnitedNetworks. In addition, UnitedNetworks Limited sold its "Eastern Electricity Assets" consisting of assets located in Tauranga, eastern and southern Waikato, Thames, Coromandel, Rotorua and Taupo on 1 November 2002. Each transaction resulted in a change in total customer numbers of 10% or more and therefore, pursuant to s5(3) of the Notice, is deemed to have taken effect on 8 August 2001.
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Excluded Services

9.1	<p>Reserve Market</p> <ul style="list-style-type: none"> • Vector operates in the Instantaneous Reserves Market. The market is fully contestable and income is derived as a result of a competitive tendering process, also is not associated with the conveyance of electricity.
9.2	<p>Clearly Not Related Activities</p> <p>The following activities are excluded services in accordance with paragraph (a)(iv) of the definition of specified services s(3)(1) as these income sources are clearly not related at all to electricity distribution</p> <ul style="list-style-type: none"> • Vector Gas: Vector’s Gas Distribution System, which is a separate business providing gas distribution services • Tangent: Vector’s Telecommunication Networks, which owns and operates high bandwidth fibre optic communication networks • Utilitech: Vector’s Electricity, Telecommunications and Gas training institute, which offers technical and safety training across a wide range of markets (and in competition to other training providers) • Stream: 70% owned by Vector, providing time-of-use metering and metering information services to commercial and industrial organisations for the purposes of improved energy management opportunities for businesses • Treescape: 50% owned by Vector, providing vegetation management and tree trimming services to third parties, including territorial authorities
9.3	<p>Non Conveyance Activities</p> <p>The following activities are excluded services in accordance with paragraph (a)(iv) of the definition of specified services s(3)(1) as these income sources are derived from non conveyance goods and services</p> <ul style="list-style-type: none"> • Advertising revenue generated through the ownership of billboards, where Vector provides public display space to advertising companies at selected properties • Electrical work carried out at the request of customers on their property, • Use of network poles by third parties e.g. Telecommunication companies (noting that there are other options available to network operators other than use of Vector’s poles) • Miscellaneous other revenue, for example rentals received from properties, profit on sale of assets, interest received

9.4	<p>Clearly Contestable Activities</p> <p>The following activities are excluded services in accordance with paragraph (a)(iv) of the definition of specified services s(3)(1) as these income sources are derived from clearly contestable activities</p> <ul style="list-style-type: none"> • Management services to other companies, such as the provision of Linelogix, a product used to provide pro-active outage notification by retailers to their customers. • Rental income from generator Hireage, where Vector sources and provides stand-by generation • Where requested by customers, any income from sourcing power quality equipment
9.5	<p>Service Charges</p> <ul style="list-style-type: none"> • A number of service charges in relation to new connections, change of connection capacity (and price category in the case of UnitedNetworks), also for temporary and vacant site disconnections, were incorporated into the use of network agreements with retailers prior to 8 August 2001. • There is also an administrative charge for late transactions (such as late or incorrect provision of consumption data) aimed at recovering unexpected costs incurred by the distributor. • Revenue from service charges has been excluded from the calculation of notional revenue, • Vector applies the charges where retailers request this service. Vector allows suitably trained and authorised service providers to undertake disconnection and reconnection services. This charge is therefore contestable. • New connection fees, payable for the first time energisation of a new connection is excluded in accordance with s5(4), on the basis that quantities cannot be definitively identified, also that this fee has not changed since 8 August 2001. Compliance with the substance of s5(1)(a) and s5(1)(b) has been demonstrated through an alternative approach, namely that the rate and its application has been unchanged since before 8 August 2001. • Confirmation of this is available in the attached UnitedNetworks pricing schedules - Appendix 5 Pricing Schedules – UnitedNetworks.
9.6	<p>Customer Contributions</p> <ul style="list-style-type: none"> • Vector receives income from customer and developer contributions, reflecting the residual cost of any uneconomic network extensions. Vector contributes to the total cost of the extension. Assets are vested in Vector on behalf of consumers, consumers can elect to own the works or vest them in a third party, examples of such situations include shopping malls, retirement villages, and residential subdivisions. Additionally Customers and developers select the contractors to construct the works. • These activities are contestable of asset ownership rather than line revenue item, and as such are excluded. (Refer also to the Commerce Commission Investigation Ref J5131, which is publicly available).



Schedule 1

Auditors' Report

To the readers of the threshold compliance statements of Vector Limited

We have examined the attached statement on pages 2 to 17 including Appendices 1 to 5, being a threshold compliance statement in respect of a price path threshold that was prepared by Vector Limited for assessment on 6 September 2003 and dated 24 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 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 financial statements.

Partners and employees of our firm may deal with the 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 5.16, 5.14 and 9.5 of the statement where Vector Limited have applied clause 5(4) to the following categories of revenue;

- 5.16 Vector Electricity large commercial revenue
- 5.14 Reactive charge to customers with a poor power factor
- 9.5 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 on pages 2 to 17, including Appendices 1 to 5, 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 6 September 2003. Our audit was completed on 24 October 2003 and our opinion is expressed as at that date.



KPMG
Auckland
24 October 2003

Schedule 2

FORM OF CERTIFICATION OF THRESHOLD COMPLIANCE STATEMENT

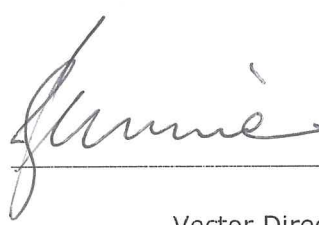
We, Michael Stiasny and Brian Plimmer, being directors of Vector Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Vector Limited, and related information, prepared for the purposes of the Commerce Act (Electricity Lines Thresholds) Notice 2003 complies with the requirements of that notice ~~except in the following respects*~~:



Vector Director

24 October 2003

Date



Vector Director

24 October 2003

Date

Note from Commission: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$10,000 in the case of an individual or \$30,000 in the case of a body corporate.

APPENDICIES

Appendix 1 – Standard Line Charge Revenue Vector Electricity

Appendix 2 – Standard Line Charge Revenue UnitedNetworks

Appendix 3 – See Appendix 3 – Non Standard Vector Electricity & Asset Specific
UnitedNetworks

Appendix 4 – Pricing Schedules – Vector Electricity

Appendix 5 – Pricing Schedules – UnitedNetworks