

Directors' Certificate for the Gas Annual Compliance Statement

For the period 1 July 2010 to 30 June 2011

We, James Carmichael and Alison Paterson, being directors of Vector Limited, certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached Annual Compliance Statement, and related information, prepared for the purposes of the Commerce Act (Vector Natural Gas Service) Authorisation 2008 complies with the requirements of that authorisation.

James Carmichael
Director

Alison Paterson
Director

4th April 2012
Date

4 April 2012
Date



Independent auditor's report

For the year ended 30 June 2011

To the Commissioners of the Commerce Commission and the Directors of Vector Limited

Report on the Annual Compliance Statement Section 2.0 - Price

We have audited the accompanying Annual Compliance Statement Section 2.0 - Price ('Compliance Statement'). The Compliance Statement has been prepared by Vector Limited ('Vector') for the purposes of clauses 10.1.2(c)(i) and 10.1.2(c)(ii) of the Commerce Act (Vector Natural Gas Services) Authorisation 2008 ('Authorisation') for the year ended 30 June 2011.

Directors' responsibility for the annual compliance statement – new services and excluded services

The directors of Vector are responsible for ensuring the Compliance Statement is prepared in accordance with the Authorisation and for such internal control as the directors determine necessary to enable the preparation of new services and excluded services statements (forms 6 and 7 per the Authorisation) are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to examine new services and excluded service statements prepared in accordance with the Authorisation and to report thereon based on the evidence obtained.

We conducted the engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements (New Zealand) 3100: *Compliance Engagements* issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance about whether the new services and excluded service statements are prepared, in all material respects, in accordance with the Authorisation.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the new services and excluded service statements whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the new services and excluded service statements in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Vector's internal control.

Our firm also performs the audit of the statutory financial statements of Vector, as well as providing other related assurance services and general accounting services. Partners and employees of our firm may also deal with the Vector on normal terms within the ordinary course of trading activities of the business. These matters have not impaired our independence as auditors of Vector. The firm has no other relationship with, or interest in, Vector.



Opinion

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion:

- The new services and excluded services statements are prepared in all material respects, in accordance with clauses 10.1.2(c)(i) and 10.1.2(c)(ii) of the Commerce Act (Vector Natural Gas Services) Authorisation 2008 for the year ended 30 June 2011.

Use of this report

This report has been prepared solely for the use of the Commissioners of the Commerce Commission and Vector Limited for the purpose of compliance with the Authorisation and for no other purpose. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the directors of Vector and the Commerce Commission, or for any purpose other than that for which it was prepared.

A handwritten signature in blue ink that reads 'KPMG.' with a period at the end.

4 April 2012

Auckland



Independent auditor's report

For the year ended 30 June 2011

To the Commissioners of the Commerce Commission and the Directors of Vector Limited

Report on the Annual Compliance Statement Section 3.0 - Quality

We have audited the accompanying Annual Compliance Statement Section 3.0 - Quality ('Compliance Statement'). The Compliance Statement has been prepared by Vector Limited ('Vector') for the purposes of clauses 8 and 10.1.2(c)(iii) of the Commerce Act (Vector Natural Gas Services) Authorisation 2008 ('Authorisation') for the year ended 30 June 2011.

Directors' responsibility for the annual compliance statement - quality performance

The directors of Vector are responsible for ensuring the Compliance Statement is prepared in accordance with the Authorisation and for such internal control as the directors determine necessary to enable the preparation of the quality performance measures that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to examine the quality performance measures prepared in accordance with the Authorisation and to report thereon based on the evidence obtained.

We conducted the engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements (New Zealand) 3100: *Compliance Engagements* issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance about whether the quality performance measures are prepared, in all material respects, in accordance with the Authorisation.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the quality performance measures whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the quality performance measures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Vector's internal control.

Our firm also performs the audit of the statutory financial statements of Vector, as well as providing other related assurance services and general accounting services. Partners and employees of our firm may also deal with the Vector on normal terms within the ordinary course of trading activities of the business. These matters have not impaired our independence as auditors of Vector. The firm has no other relationship with, or interest in, Vector.



Opinion

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion:

- The quality performance measures are prepared in all material respects, in accordance with clauses 8 and 10.1.2(c)(iii) of the Commerce Act (Vector Natural Gas Services) Authorisation 2008 for the year ended 30 June 2011.

Use of this report

This report has been prepared solely for the use of the Commissioners of the Commerce Commission and Vector Limited for the purpose of compliance with the Authorisation and for no other purpose. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the directors of Vector and the Commerce Commission, or for any purpose other than that for which it was prepared.

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

4 April 2012
Auckland



Pursuant to the Commerce Act (Vector Natural Gas
Services) Authorisation 2008

Annual Compliance Statement

1 May 2012

(Public Version)

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1.0 INTRODUCTION

- 1.1 This Annual Compliance Statement (the Statement) is submitted by Vector Limited pursuant to *clause 10.1* of the Commerce Act (Vector Natural Gas Services) Authorisation 2008 (the Authorisation). The Statement has been prepared for 1 May 2012. In the Statement, references to Vector relate only to Vector's gas business controlled under the Authorisation.
- 1.2 Vector believes it has met the requirements of the Authorisation in the 2010/11 year. The reporting requirements for this Annual Compliance Statement have been met, where applicable, including the provision of detailed explanations for the reasons for instances or quality performance not meeting the thresholds in schedule 5.

2.0 PRICE

- 2.1 The Authorisation requires Vector to demonstrate that prices for the forthcoming pricing year are compliant with the weighted average price cap in *clause 6* of the Authorisation, and submit forms 3 (price and quantity information) and 5 (pass through cost information) of Schedule 7, in respect of the forthcoming pricing year.
- 2.2 The Authorisation defines the final "pricing year" as the period commencing 1 October 2011 and ending on 1 July 2012. Vector provided pricing compliance information in respect of this period in its May 2011 compliance statement.¹ As at the date of this Statement, 1 May 2012, there is no "forthcoming" pricing year to be reported on and, accordingly, the Authorisation does not require Vector to provide any pricing compliance information in this Statement.
- 2.3 The Authorisation requires Vector to submit other specific information in respect of the "preceding financial year", including forms 6 (new services), 7 (excluded services) and 8 (quality performance) of Schedule 7. "Financial year" is defined by the Authorisation as a period of 12 months ending on 30 June. Accordingly, other compliance information for the financial year ending 30 June 2011 has been included in the Statement.

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<http://vector.co.nz/sites/vector.co.nz/files/FINAL%20Gas%20Annual%20Compliance%20Statement%202011%20-%20Pricing%20-Public%20version.pdf>

New services

- 2.4 Form 6 of Schedule 7 of the Authorisation requires Vector to provide details on customers who have moved from standard to non-standard distribution services. Vector has provided this information in Table 1 in Appendix 1.
- 2.5 There have been no movements from standard to non-standard distribution services over the period 1 July 2010 to 30 June 2011.

Excluded services

- 2.6 Form 7 of Schedule 7 of the Authorisation requires Vector to provide information on the revenue from excluded services. Vector has provided this information in Table 2 in Appendix 2.
- 2.7 Vector does not currently receive revenue from a number of the excluded services listed by the Commission including reconnection services and decommission services as these are either provided for free (predominantly for safety reasons), or are provided by other parties.
- 2.8 Vector does not generally receive revenue from disconnection services, however for the year ending 30 June 2011 received a small amount of revenue relating to the disconnection of vacant and inactive sites.
- 2.9 Table 2 in Appendix 2 includes revenue from five new non-standard distribution services supplied after 30 September 2007.
- 2.10 In reporting revenue for excluded services, Vector has reported the numbers directly from its financial reporting system except for excluded non-standard distribution services which have been reported from Vector's billing system.

No breach

- 2.11 Vector confirms that there has been no breach of the Authorisation in respect of the reporting provisions of the Authorisation clause 10.1.2 (c)(i) and (ii), being the provision of Forms 6 (New Services) and 7 (Excluded Services) of Schedule 7.



3.0 QUALITY

- 3.1 The Authorisation requires Vector to disclose information on the quality of services supplied in accordance with Clause 10, Schedules 5 and 6, and Form 8 of Schedule 7.
- 3.2 This Statement discloses information on the quality of Vector's controlled services from 1 July 2010 to 30 June 2011 (2010/11 year), and demonstrates Vector's performance during the reporting period against the thresholds provided in Schedule 5 of the Authorisation. The Statement contains detailed explanations of the reasons for instances of quality performance not meeting the thresholds in Schedule 5.

Performance against thresholds

- 3.3 Clause 10.3.1 of the Authorisation requires Vector to provide a detailed explanation of the reasons for instances of quality performance not meeting the thresholds in schedule 5. As disclosed below, Vector has exceeded the schedule 5 thresholds for unplanned SAIDI, unplanned SAIFI and responses to emergency indices. The detailed explanations are provided below.

3.4 Unplanned SAIDI calculation²

$$\begin{aligned}\text{Definition} &= (\text{Customer Minutes}/\text{Avg Customer count}) \times 1000 \\ &= 81,985/88,682 \times 1000 \\ &= 924.5\end{aligned}$$

$$\text{Target} = 121 \text{ (measured in thousandths of minutes)}$$

Result: Threshold not met

3.5 Unplanned SAIFI calculation³

$$\begin{aligned}\text{Definition} &= (\text{Customers Affected}/\text{Avg Customer count}) \times 1000 \\ &= 628/88,682 \times 1000 \\ &= 7.1\end{aligned}$$

$$\text{Target} = 4.4$$

Result: Threshold not met



² SAIDI: System Average Interruption Duration Index

³ SAIFI: System Average Interruption Frequency Index

Comparability of unplanned SAIDI and SAIFI results with the thresholds

- 3.6 The thresholds in Schedule 5 are derived from historical data that was collected for internal management purposes. Prior to the Authorisation it was industry practice to assign a notional 30 minute interruption time to all outages. It is also difficult to confirm that the historical data was complete and accurate or that it necessarily aligned with the definitions prescribed in the Authorisation.
- 3.7 In order to comply with the requirements of the Authorisation, including ensuring that our standards of data collection and management produce data sets that are complete and accurate, we have had to fundamentally revisit our data capture standards and processes.). This has seen our Service Providers (SPs) dramatically revise their data collection and quality control processes to achieve much higher levels of quality in data that is captured in the field. In addition, our own internal quality assurance and reporting processes have been made substantially more robust to ensure the data underpinning our reported performance indicators is complete and accurate.
- 3.8 Over the past three years, Vector has instigated a number of initiatives to deliver this improvement, as reported in our previous two compliance statements. Whilst these actions have resulted in improved data accuracy, they have also had the effect of significantly increasing our reported interruption statistics.
- 3.9 Notably, comparing 2010/11 with prior years, the number of reported outage events caused by material damage or equipment failure has doubled in number compared with 2009/10.⁴ This follows more specific guidance being provided to the SP field crews to avoid ambiguity and the potential for different interpretations in the field. For example, the data capture standards clarified the demarcation of the network between the gas distribution network and the gas meter installation on the customer isolation valve (CIV) assembly and how this was to be reflected in the data capture form . As a result of this refinement, a number of outage events associated with CIV installations that were previously excluded from the figures are now included, with a commensurate impact on unplanned SAIDI and SAIFI. In 2010/11, there were 213 events related to CIV

⁴ In 2010/11 there were 199 such events resulting in outages. In 2009/10 there were 86 similar events identified.

installations, which together contributed 212 to unplanned SAIDI index and 2.9 to the unplanned SAIFI index.⁵

- 3.10 The thresholds set in 2008 may not be comparable with the result reported under our current data collection and management processes. However, we believe that the intent of the thresholds in the Authorisation is to provide an indication of whether network performance is being maintained. We provide further evidence on the performance of the network in the following section.

Comments on performance

- 3.11 In seeking to analyse network performance, we note that on an underground gas distribution network (unlike an overhead electricity network) unplanned SAIDI and SAIFI represent a relatively low number of incidents. This is reflected in the calibration of the SAIDI index, which is expressed in thousandths of a minute. Consequently, the indices are highly sensitive to the specific circumstances of these incidents. Events can occur anywhere on the network, at any time, and these factors can have a dramatic impact on the reported statistics. For example, a small number of events in remote locations or traffic congestion issues impacting our response time can materially influence the indices.
- 3.12 Third Party Damage (TPD) events are a major contributor to the unplanned SAIDI and SAIFI outcomes. In 2010/11, 307 TPD events contributed 523 to the SAIDI index. Our disclosed third party damage events (per pipeline length) has shown a decreasing trend. This indicates that 2010/11 has seen more serious incidents rather than an increase in incidents. One particular event contributed 106 to the index, noting the annual threshold is 121, and the top five events contributed 251 to the index.⁶ This data does not indicate any worsening of pipeline condition, rather, it shows a material impact on the reported SAIDI (in particular) due to the severity of impact of a small number of events.
- 3.13 A further indication of the performance of the network is provided by the level of Publically Reported Escapes (PRE). Our reported

⁵ Due to the previous inconsistencies of interpretation in the field, it is not possible to quantitatively analyse prior years' events against this year's more complete and accurate database.

⁶ These events related to third parties strikes on underground gas pipelines as a result of digging or drilling. All such events are followed up with the third parties involved and costs are recovered. TPD events are analysed and mapped to identify trends and repeat offences. Vector also maintains proactive controls which include active engagement with third parties, provision of spatial information via an online service (recently upgraded), mark-out of underground asset locations and, for strategic assets, a stand-over service.



outcomes for PRE, a measure which is widely used throughout Australasia as the primary indicator of the overall integrity of gas distribution networks, have shown a continual decline (i.e. improvement) since 2003/04. The 2010/11 result was our second lowest on record. As noted in paragraph 3.20 below, our PRE measure falls well within the threshold.

- 3.14 Vector's overall Corrective Maintenance expenditure, which includes the costs of correcting identified defects, shows no underlying increase over the last five years.
- 3.15 Vector's gas distribution investment programme, in particular the pipeline refurbishment programme, is specifically directed towards improving network reliability. The work programme to replace old cast iron pipes with more reliable polyethylene materials is on schedule, and will be completed in two years.
- 3.16 For these reasons, we believe that Vector's performance against the unplanned SAIDI and SAIFI thresholds does not indicate a systemic deterioration in network reliability.

3.17 Responses to Emergency

Definition =
$$\frac{\text{\# of Emergencies responded to within one hour}}{\text{Total number of Emergencies}}$$

= 91/99
= 91.9%

Target = 95% responded to within one hour

Result: Threshold not met

- 3.18 The average response time for all 99 emergency events was 37 minutes; the average duration for the eight events exceeding target was 66 minutes. Of the eight events for which the target was not met, four were due to delays during the dispatch process; four were related to traffic and travel. The dispatch delays were between 9 and 20 minutes; response times for these events ranged from 60 to 68 minutes. The response times of the events affected by traffic and travel related delays were between 62 and 73 minutes.
- 3.19 Improved practices to reduce response to emergency times were implemented through 2011, including: further training for dispatch and field crews; more robust dispatch processes including escalation if, for any reason, dispatch cannot be confirmed within five minutes; the use of geographical position systems devices in SP vehicles, and the implementation of new processes for allocating alternative

resources on notification of traffic and travel delays. In addition, SP performance measures have been aligned with the Commerce Commission quality performance indicators. These efforts have yielded notable improvements in emergency response times since their introduction, in particular in relation to dispatch delays. Indicative data from the current year to date shows sustained performance above the threshold.

3.20 Public Reported Escapes of Gas

Definition = $\frac{\# \text{ of confirmed public reported escapes of gas}}{\text{total length of pipeline [km]} \times 1000}$

= 84.1

Target = 219.6

Result: Threshold met

No Breach

- 3.21 Vector confirms that there has been no breach of the Authorisation in respect of the reporting provisions of the Authorisation clause 10.1.2 (c) (iii), being the provision of Form 8 (Quality Performance) of Schedule 7.



Appendix 1, Table 1 - New Services

Form 6 of Schedule 7 of the Authorisation requires Vector to provide information on the movement from standard to non-standard distribution services.

Table 1, Movement from Standard to non-Standard Distribution Services, (Form 6, Schedule 7)

For the reporting period 1 July 2010 to 30 June 2011

Date of commencement of new service	Movement from Standard to Non-Standard Distribution Service (ICP)	Move at the request of business or client?	Annual Quantity (kWh)	Previous Standard Load Group	Previous Pricing Terms (\$/day)	Previous Pricing Terms (\$/kWh)	New Pricing Terms (\$/day)	New Pricing Terms (\$/kWh)
-	-	-	-	-	-	-	-	-

There have been no movements from standard to non-standard distribution services over the reporting period.

Appendix 2, Table 2 - Excluded Services

Table 2, Excluded Services, (Form 7, Schedule 7)

For the reporting period 1 July 2010 to 30 June 2011.

Excluded Services	Revenue (\$'000)
Disconnection services	15
Reconnection services	-
Decommission services	-
Gas connection services for new services	2,352
Excluded non-standard distribution services	304
Total	2,671



Appendix 3, Quality Performance

For the Reporting Period 1 July 2010 to 30 June 2011

Table 3, System Reliability Information, (Form 8, Schedule 7)

Indicator	Calculation	Threshold	Value
SAIDI – unplanned, excluding transmission faults	$[(\text{Sum of (unplanned interruption durations)} - \text{Sum of (unplanned interruption durations caused by transmission faults)}) / \text{average total customer numbers}] \times 1000$	121	924.5
SAIFI – unplanned, excluding transmission faults	$[(\text{Sum of (no of customers affected by each unplanned interruption not caused by transmission faults)} / \text{average total customer numbers})] \times 1000$	4.4	7.1
CAIDI – unplanned, excluding transmission faults	SAIDI – unplanned, excl transmission faults / SAIFI – unplanned, excl transmission faults	Not applicable	131
SAIDI planned	Sum of (planned interruption durations) / average total customer numbers	Not applicable	6.0
SAIFI – planned	Sum of (number of planned interruptions) / average total customer numbers	Not applicable	0.016
Outage Events	Number of Outage events	Not applicable	5
Outage Events caused by third party damage	Number of Outage events caused by Third Party Damage	Not applicable	2



Table 4, System Condition and Integrity Information, (Form 8, Schedule 7)

Indicator	Calculation	Threshold	Value
Third Party Damage Events	Number of third party damage events/total length of pipeline [km]	Not applicable	0.055
Leaks	Number of leaks detected on distributor's network by routine network survey / total length of pipeline [km] * 1000	Not applicable	1.1
Public Reported Escapes (PRE)	Number of confirmed public reported escapes of gas / total length of pipeline [km] * 1000	219.6	84.1
Poor pressure due to network causes	Number of poor pressure events	Not applicable	0
Unaccounted for Gas	Unaccounted for gas/total gas input at entry points	Not applicable	1.27%

Table 5, Customer Service Information, (Form 8, Schedule 7)

Indicator	Calculation	Threshold	Value
Responses to Emergency	Number responded to within one hour/total number of emergencies	95% responded to within one hour	91.9%
Answering Telephone calls	Telephone calls to the emergency number will be answered by a individual within 30 seconds	Not applicable	83.1%
Complaints	Number of complaints/average total customer numbers	Not applicable	0.00136

