**Vector Group – financial highlights**

*Year ended 30 June*

<table>
<thead>
<tr>
<th>$m</th>
<th>2007</th>
<th>2006</th>
<th>% Change</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>610.0</td>
<td>578.6</td>
<td>+5.4</td>
<td>466.1</td>
</tr>
<tr>
<td>EBIT</td>
<td>369.0</td>
<td>362.7</td>
<td>+1.7</td>
<td>307.2</td>
</tr>
<tr>
<td>NPATA</td>
<td>199.9</td>
<td>143.7</td>
<td>+39.1</td>
<td>104.3</td>
</tr>
<tr>
<td>NPAT:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Underlying</td>
<td>61.7</td>
<td>45.1</td>
<td>+36.8</td>
<td>40.8</td>
</tr>
<tr>
<td>- One off</td>
<td>40.0</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total NPAT</td>
<td>101.7</td>
<td>45.1</td>
<td>+125.7</td>
<td>40.8</td>
</tr>
</tbody>
</table>

**Vector Group – financial highlights**

*Year ended 30 June 2007*

- NPATA per share\(^{(1)}\) 20.0 cents (2006: 14.4 cents)
- Final dividend: 6.5 cps (fully imputed)
  
  Record date: 29 August 2007; Payment date: 4 September 2007
- Total dividend: 13.0 cps, fully imputed (2006: 12.0 cps)
- Total assets: $5,728.9m (2006: $5,718.6m)
- Operating cash flow: $358.0m (2006: $353.2m)

**Business unit contributions**

- Electricity EBITDA $378.0m (2006: $364.5m)
- Gas EBITDA $243.6m (2006: $207.1m)
- Technology EBITDA $47.2m (2006: $41.9m)

\(^{(1)}\) 1 billion shares on issue
Vector has recorded net earnings after tax (NPAT) of $101.7 million for the year ended 30 June 2007. As announced to the market on 30 July, this includes a one-off gain of $40 million as a result of the change in Vector’s deferred tax liability. This arises as a result of the reduction in the corporate tax rate from 33% to 30% enacted in May which required restatement of our deferred tax liabilities at the lower rate, as part of our year-end accounting processes.

The last market NPAT guidance in May was $58 million to $63 million. The Chairman also indicated in July that NPAT would increase by at least 28%. The underlying result for the current year, excluding the one-off gain, has come in at the upper end of the indicated range.

The deferred tax adjustment is a non-recurring item and, as a non-cash accounting entry, has no impact on our underlying profitability and cash flows, and therefore our dividend payment.

Vector is reporting a strong performance by all of its core businesses, with each making an increased earnings contribution to the year’s result.

A substantial 19.4% increase in operating revenue to $1,352.9 million reflects volume and connection growth on our infrastructure networks, higher energy use as a result of the return to more regular weather patterns following the warmer winter of 2005, and significantly higher natural gas sales as a result of major supply contracts won during the year.

Given the increased revenues, operating expenditure increased by 34.0% to $742.9 million. In particular, this increase was driven by additional gas purchases required to meet increased demand from new and existing gas customers, rates on our infrastructure networks, and increased regulatory compliance costs.
During the year we wrote off, or provided for the write off, of $11 million of assets removed or replaced on our networks as part of our ongoing replacement programme. Of this, $9.2 million related to the electricity networks.

This, combined with tighter margins, especially in the gas business where we are buying increasing volumes of our gas from higher-cost suppliers, restricted growth in earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA increased by 5.4% to $610 million.

The same influences are factors in our operating cash flows, which increased by 1.4% to $358 million.

Depreciation and amortisation increased by 11.6% to $241 million, due to increased capital expenditure and higher asset depreciation from the previously-reported March 2006 revaluation of our electricity and Auckland gas networks. Earnings before interest and tax (EBIT) consequently rose 1.7% to $369 million.

A slightly higher net interest expense of $230.4 million reflects additional net debt carried during the year, while the minority interest deduction almost halved due to our earlier full acquisition of NGC.

The reduced taxation expense includes the $40 million deferred tax adjustment and a $9.6 million benefit relating to the resolution of prior year issues.

Net profit after tax and before amortisation (NPATA) of $199.9 million also incorporates the $40 million deferred tax adjustment. Excluding this adjustment, underlying NPATA of $159.9 million represents an increase of 11.3% compared to the prior year.

The Board has declared a final dividend of 6.5 cents per share, fully imputed. This will be paid on 4 September 2007 to shareholders registered on 29 August 2007, and takes the full dividend for the year ended 30 June 2007 to 13 cents per share, fully imputed. This represents 81% of NPATA, excluding the deferred tax adjustment, is an increase of 8.3% in the rate of dividend, and compares with 12 cents per share (83% of NPATA) for 2006.
Total assets as at 30 June 2007 are $5,728.9 million. The $40 million reduction in the deferred tax liability is reflected in a matching increase in equity, via retained earnings. There are no other material changes in either the source of funds or the total assets compared with the position as at 30 June 2006, where total assets were $5,718.6 million.

### Vector Group – key ratios
**Year ended 30 June**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt ($m)</td>
<td>3,127.6</td>
<td>3,081.1</td>
<td>3,147.6</td>
</tr>
<tr>
<td>Equity ($m)</td>
<td>1,903.0</td>
<td>1,925.9</td>
<td>1,045.6</td>
</tr>
<tr>
<td>Net debt/(net debt + equity) (%)</td>
<td>62.2</td>
<td>61.5</td>
<td>75.1</td>
</tr>
<tr>
<td>Net interest cover (x times)</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>EBITDA/operating revenue (%)</td>
<td>45.1</td>
<td>51.1</td>
<td>53.5</td>
</tr>
<tr>
<td>EBIT/operating revenue (%)</td>
<td>27.3</td>
<td>32.0</td>
<td>35.3</td>
</tr>
</tbody>
</table>
Net debt of $3,127.6 million as at 30 June 2007 is $46.5 million (or 1.5%) higher than the previous year.

As a result of this, our financing metrics are consistent with the previous year and our Standard & Poor's BBB+ stable credit rating was confirmed in July after their annual review.

EBITDA and EBIT operating margins are down on 2006, principally because of reduced margins on the major gas supply contracts due to the increase in cost associated with the Pohokura gas supply.

As has been well signalled, our legacy Maui gas entitlements are likely to run out in the 2007/08 financial year and margins on our natural gas business will normalise at lower levels than achieved in previous years.

**Capital and Investment Management**

We maintain an active capital management programme, which is assisted by favourable access to debt capital markets and a supportive group of lenders and note holders.

As previously reported, a $70 million working capital facility expiring on 19 October 2006 was extended for a year on similar terms. On its anniversary this year it is expected to be refinanced on similar terms.

On 15 December 2006, we successfully rolled over our capital bonds under modified terms. The reset interest rate of 8.0% was 25 basis points below the pre reset rate and, pleasingly, 89% of the existing bondholders renewed their investment through until 2012.

**NZD Medium Term Notes**

NZD $200 million of medium term notes were redeemed on 4 April 2007 and refinanced by NZD $200 million of credit wrapped floating rate bonds that will expire on 4 April 2017. These bonds were wrapped by Ambac Assurance Corporation and were placed with domestic institutional investors.

**AUD Medium Term Notes**

$250 million of AUD medium term notes are scheduled for repayment on 14 April 2008. It is intended that these will be refinanced as part of our ongoing funding programme.
Wanganui Gas Ltd

On 30 October 2006, following a review of our business portfolio, we sold our 25.1% shareholding in Wanganui Gas Ltd to Wanganui District Council Holdings Ltd for $8 million.

NZ Windfarms Ltd

Consistent with our strategy of positioning in the renewable energy market, on 1 June 2007 we completed our acquisition of a cornerstone 19.99% shareholding in NZ Windfarms Ltd. We acquired 15,704,000 NZ Windfarms shares for $17 million in our first renewable energy investment under our environmental strategy. The cornerstone shareholding placement with Vector was part of a $75 million share issue by NZ Windfarms to fund the ongoing development of its successful Te Rere Hau wind farm joint venture and to develop further wind farm assets. Vector has conditionally agreed to participate, to a level of about $5 million, in a further subsequent share issue of approximately $25 million if NZ Windfarms decides to make such an issue before the end of 2009.
Electricity Business Summary
Year ended 30 June 2007

Financial Result

Total electricity distributed to customers increased by 1.9% to 10,595 gigawatt hours (GWh). This was driven principally by the addition of almost 10,200 new customer connections, as well as higher per-customer electricity consumption as a result of the return to normal weather patterns in 2006 after the warmer conditions in the previous year. This was particularly so in Wellington where per-customer electricity use increased by an average of 1.7%.

Electricity business revenues of $611.5 million, compared with $580.1 million in 2006, also include adjustments to our electricity line charges from 1 April 2007 as allowed under our regulatory price path.

EBITDA increased by 3.7% to $378 million, with cost efficiencies offsetting the $9.2 million write off of assets removed or replaced on the networks.

A 1.2% decline, to $266.5 million, in electricity business earnings before interest and tax (EBIT) is due to higher depreciation resulting from the previously-reported revaluation of our electricity networks as at 31 March 2006.
Network Reliability

We continue to upgrade and enhance network performance, with $88 million (or 55%) of the total $161.2 million of capital expenditure invested in the electricity business during the year being directed to network replacement, compliance and improvements.

We completed the regulatory year, ended 31 March 2007, with supply interruptions arising from normal operations slightly below the 85.5 minutes System Average Interruption Duration Index (SAIDI) threshold for supply quality.

We recorded 83.8 SAIDI minutes arising from normal operations, and a further 31.8 minutes attributable to extreme events (applying our extreme event methodology), including severe storms. The Commerce Commission has yet to formally define extreme events.

In the last quarter of our financial year – also the first quarter of the new regulatory year – our SAIDI minutes from normal operations amounted to 21.3 minutes, with only an additional 0.1 minutes attributable to extreme conditions. We expect the extreme weather minutes to increase substantially when the effects of the prolonged and unusually powerful storm that struck upper North Island regions on 10 July are factored into our SAIDI calculations.

### Vector – electricity business

**Year ended 30 June**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets employed ($m)</strong></td>
<td>3,224.3</td>
<td>3,213.0</td>
<td>+0.3</td>
</tr>
<tr>
<td><strong>CAPEX ($m)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Growth</td>
<td>73.2</td>
<td>77.6</td>
<td>-5.7</td>
</tr>
<tr>
<td>- Replacement/compliance</td>
<td>78.7</td>
<td>59.1</td>
<td>+33.2</td>
</tr>
<tr>
<td>- OIP</td>
<td>9.3</td>
<td>9.6</td>
<td>-3.1</td>
</tr>
<tr>
<td><em><em>System length</em> (km)</em>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Greater Auckland (Auckland/Northern)</td>
<td>17,231</td>
<td>16,818</td>
<td>+2.5</td>
</tr>
<tr>
<td>- Wellington</td>
<td>4,564</td>
<td>4,482</td>
<td>+1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21,795</td>
<td>21,300</td>
<td>+2.3</td>
</tr>
</tbody>
</table>

* Electricity systems lengths based on GIS data as at 31 March and excludes auxiliary lines/cables (street lighting, hot water)
## Gas Business Summary
### Year ended 30 June 2007

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>Gas Transportation</th>
<th>Gas Sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>138.8</td>
<td>130.1</td>
<td>529.4</td>
</tr>
<tr>
<td>EBITDA</td>
<td>105.7</td>
<td>112.5</td>
<td>137.9</td>
</tr>
<tr>
<td>% Revenue</td>
<td>76.2</td>
<td>86.5</td>
<td>26.0</td>
</tr>
</tbody>
</table>

The gas business comprises natural gas, transportation (transmission and distribution), processing and sales, and gas liquids (LPG and natural gasoline production and sales, and the LPG wholesaling and tolling activities of our 60.25% owned subsidiary, Liquigas Limited).

### Financial Result

A significant 37.5% increase to $668.2 million in revenue from the gas business is attributable to substantially one-off higher natural gas and strong LPG sales arising from general demand growth, new longer-term supply contracts to electricity generators and two one-off contracts with petrochemical producers.

---

### Vector – gas business
#### Year ended 30 June

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>668.2</td>
<td>486.1</td>
<td>+37.5</td>
</tr>
<tr>
<td>EBITDA</td>
<td>243.6</td>
<td>207.1</td>
<td>+17.7</td>
</tr>
</tbody>
</table>

**Natural gas transported (PJ)**
- Transmission: 94.6 (2006: 105.3) -10.2%
- Distribution: 22.0 (2006: 22.8) -3.5%

**Sales volumes**
- Natural gas (PJ): 53.7 (2006: 35.5) +51.3%
- Gas liquids (tonnes) (1): 108,247 (2006: 100,743) +7.4%
- Liquigas (tonnes) (2): 110,112 (2006: 111,785) -1.5%
- Gas entitlements (PJ): 243 (2006: 186) +30.6%

(1) Includes OnGas LPG sales and KGTP LPG and natural gasoline production/sales
(2) Includes domestic market tolling/wholesaling and export tolling
Of the two petrochemical contracts, one ceased in November 2006 and the other will cease in September 2007. Revenues also incorporate price adjustments that took effect from the new contract year on 1 October 2006.

Margins are tightening as we purchase increasing volumes of higher cost gas under our new entitlements. Gas business EBITDA increased by 17.7% to $243.6 million and, in addition to the increase arising from increased volumes, included a reallocation of $22 million of corporate costs now reported within corporate shared services.

Gas business EBIT increased by 25.4% to $152.7 million, after allowing for increased depreciation and amortisation, which included higher depreciation associated with the previously-reported three-yearly revaluation of the Auckland gas networks as at 31 March 2006.

### Vector – gas business

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2007</th>
<th>2006</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets employed ($m)</td>
<td>1,903.3</td>
<td>1,950.1</td>
<td>-2.4</td>
</tr>
<tr>
<td>CAPEX ($m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Growth</td>
<td>26.0</td>
<td>27.7</td>
<td>-6.1</td>
</tr>
<tr>
<td>- Maintenance</td>
<td>14.9</td>
<td>16.5</td>
<td>-9.7</td>
</tr>
<tr>
<td>System length (km)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- owned/operated</td>
<td>2,286</td>
<td>2,286</td>
<td>--</td>
</tr>
<tr>
<td>- operated/managed for other owners</td>
<td>1,219</td>
<td>1,195</td>
<td>+2.0</td>
</tr>
<tr>
<td>Distribution</td>
<td>6,708</td>
<td>*6,598</td>
<td>+1.7</td>
</tr>
<tr>
<td>Distribution network connections</td>
<td>143,047</td>
<td>139,007</td>
<td>+2.9</td>
</tr>
</tbody>
</table>

* Restated to reflect GIS data review

### Systems Operations

Gas transmission throughput of 94.6 PJ is down 10.2% on 2006 because of the high volumes that were transported in 2006 for thermal power generation, at a time of constrained hydro resources. As this gas is transported under fixed price contract arrangements, the movement has little effect on revenues. Since April this year transmission volumes have included deliveries to a newly-commissioned 45 megawatt peaking plant at the Southdown power station.
During the year, we laid 110 kilometres of new natural gas pipelines, compared with 115 kilometres in the previous year, to meet demand growth and urban expansion. Total gas network connections increased by almost 3% to 143,047 as at 30 June 2007. Approximately 64% of the 4,040 net gain in connections occurred in Auckland and, overall, included 437 higher load commercial businesses.

The load gains, however, were offset by the loss of two large wood processing customers and gas network throughput declined by 3.5% to 22 PJ.

**Natural Gas Sales**

New sales contracts with petrochemical producers and significantly higher sales to electricity generators resulted in a 51.3% increase, to 53.7 PJ, in natural gas sales volumes during 2006/07.

Sales to petrochemical producers amounted to 12.6 PJ, compared with 0.3 PJ in the previous year, while sales for electricity generation amounted to 11.4 PJ, up 7.2 PJ.

Wholesale sales to gas retailers declined by 16.9% to 4.9 PJ, due mainly to the expiration of a short-term supply contract, and increasing competition arising from a short-term gas production flush is reflected in a reduction from 20.8 PJ to 20.4 PJ in sales volumes to our industrial and commercial customers during the year.

Vector remains competitive in its offers to existing and new customers over the longer term and we have secured a number of supply contracts beyond 2010 on the strengths of our solid portfolio of gas entitlements. These amounted to 243 PJ as at 30 June 2007 (30 June 2006: 186 PJ).

**Gas Liquids (LPG/natural gasoline)**

Bulk and cylinder LPG sales through our OnGas business were 10.4% higher at 49,789 tonnes due to a combination of the return to normal weather patterns during 2006/07, general market and customer growth. OnGas customer numbers increased by 3,367 to total 18,856 as at 30 June 2007.

OnGas LPG infrastructure reinforcement during the year included the commissioning of a new storage, filling and distribution centre at Wiri, Auckland, the installation of LPG reticulation pipes at a large residential subdivision near Warkworth and further expansion of the cylinder delivery fleet.

LPG delivered to the New Zealand market by the bulk distributor, Liquigas Limited (60.25%-owned by Vector), increased by 7.4% to 109,561 tonnes. LPG importation is now a regular supply feature as indigenous production, in association with natural gas production, increasingly reflects a decline in Maui output and the transition to a multi-field gas supply environment. This includes increasing use of Pohokura gas, which has no associated LPG recovery.
Gas Processing

Continuing attention to operational excellence and a stronger focus on plant reliability improved the Kapuni gas treatment plant’s uptime from 96.5% in 2006 to 99.5%, with an associated saving of about $1.6 million.

Reduced gas availability from the Kapuni field continued to constrain gas processing output. Treated gas production declined slightly from 19.3 PJ in 2006 to 18.9 PJ in the latest year, although the plant’s gas liquids production (LPG and natural gasoline) increased by 5% to 58,458 tonnes.

Increased liquid carbon dioxide production capability, from 85 to 120 tonnes a day, following the commissioning of expanded facilities during 2006, has allowed us to broaden our customer base for this product in the New Zealand market.
Technology Business Summary
Year ended 30 June 2007

The Technology business incorporates energy metering - NGC Energy Services and Stream Information (70% owned) – and Vector Communications. Their combined EBITDA contribution of $47.2 million, up 12.7% on the previous year, was driven by increased revenues and cost management.

Energy Metering

A noticeable move away from simple meters to technologically advanced meters is being driven by retailers wanting to improve the efficiency of their operations and offer their customers energy management solutions. Vector is currently engaged in a process of tendering advanced metering services to a number of retailers.

To strengthen our capabilities in the metering services field, we are partnering with Siemens AG to combine Siemens’ global technological and operational expertise in energy services with Vector’s leading position in the competitive New Zealand market.

During the year, in conjunction with a number of energy retailers, we commenced an initial deployment of advanced meters utilising power line carrier and point-to-point cellular telecommunications technologies, which offer multiple benefits to retailers, lines companies and end-use customers.
Vector Communications

The contribution that true broadband can make to economies is acknowledged globally and Vector is pleased to play its part in New Zealand.

Vector Communications, which is a true broadband network provider, increased its fibre optic network by over 70 kilometres and recorded strong growth in major accounts and other services. The network in Auckland and Wellington now totals over 500 kilometres.

A significant achievement was the North Shore Urban Fibre Network (UFN) implementation arising from a $4.6 million award to Vector Communications and the North Shore City Council from their successful joint bid under the Government’s Broadband Challenge. This project will provide high performance broadband services to over 40 schools, six libraries and 15 council facilities in North Shore City.

Service growth also reflects customer demand for innovative new products and services offered by Vector Communications.

Looking at where we take this business is a major work stream within Vector. While no decisions have been made, we are seriously focused on how we can deliver the true broadband that the economy and customers require. The needs are great and Vector has the ability to step up, given the right partnerships, regulatory environment and incentives.
The results for the 12 months ended 30 June 2007 incorporate a full year of Vector’s shared services model implemented following the completion of the NGC acquisition in August 2005. Under this model, centres of excellence in finance, strategy, regulatory and performance, IT, organisation development (including personnel), legal counsel and property operate in support of the operating units. Accordingly the results for the year under review reflect higher costs at the corporate level as a result of the transfer of these activities from NGC business units to the Vector corporate reporting sector. The costs also reflect increases in such costs as regulatory compliance.

The 2007 result includes $22 million of cost previously reported in the Gas business results.
**Services**

**Utilitech**

Utilitech continued to expand the range of training and associated services offered to the electricity and gas distribution industries, and the broader utilities sector.

In addition, Utilitech’s candidate achievement reporting role, within the tertiary education sector, grew substantially. This has enabled Utilitech to enhance the level of service received by those undertaking training and their employers, Utilitech’s customers.

Revenue remained consistent with last year as the increase in electricity supply industry trainee numbers experienced in 2006 to address a skills shortage appears to have reached a plateau.

Utilitech is well placed to provide a new dimension of training to ensure New Zealand has skilled resources in the installation, operation and maintenance of new energy technologies.

**Treescape (50% owned)**

Treescape, Vector’s 50%-owned vegetation management company, had a solid year, developing its operations throughout New Zealand and on Australia’s Gold Coast.
Regulation and Industry Governance

Regulation remains a primary focus for Vector, with a number of significant policy and regulatory issues being raised and addressed throughout the year. Overall Vector has seen an improvement in its regulatory outlook with positive signs emerging, in particular, from the review of the regulatory control provisions in the Commerce Act. Our relationships at the regulatory level are constructive and we continue to engage with key ministers, other Members of Parliament, the Commerce Commission, Electricity Commission and officials.

We currently have over 50 regulatory and industry governance-related work streams under active management. Significant matters receiving attention are set out below.

Commerce Act Review

Vector welcomes the announcement by the Minister of Commerce that Parts 4, 4A and 5 of the Commerce Act, which regulates Vector’s electricity networks, were under review. The main objective is to ensure that the regulatory framework delivers certainty and confidence, thereby enabling investment.

This will require striking the right balance between incentives for investment and consumer protection.

The key components to achieve these objectives are:

- input methodologies;
- merits review;
- greater options for regulatory frameworks; and
- market tests.

The options for regulatory terms include:

- negotiate/arbitrate;
- thresholds regime;
- propose and respond; and
- information disclosure.

In Vector’s view, these together provide a broader framework which ultimately will lead to more robust regulatory outcomes.

We believe the process to date has been constructive and inclusive, with Government, industry and expert advisers working well together.

The Government policy statement in August last year set the context for the Commerce Act review and this still gives us encouragement from a future investment perspective.

The Commerce Act review is a key regulatory event for Vector, as it encompasses many of our fundamental business operations. Accordingly it, above all else, will define our future.
Administrative Settlement

Vector’s administrative settlement offer was agreed in principle with the Commission on 13 October 2006. Advice from the Commerce Commission is that the offer will go to public consultation in September with a decision soon after. We look forward to this matter being concluded.

In the meantime we continue with our voluntary rebalancing programme which forms the basis of our administrative settlement offer.

Electricity Thresholds Reset in 2009

The price and quality thresholds regime for electricity lines companies, including Vector, is due to expire on 31 March 2009. The Commerce Commission has initiated a process to reset the thresholds, and Vector is working constructively to provide information to the Commission to support its analysis. The Commission has not communicated yet about the terms of the reset or the methods that will apply. Further, the thresholds reset process may be superseded by new regulatory control provisions arising from the Commerce Act review.

The main concern for Vector arising from the 2009 reset, is how to deal with increasing demands for quality infrastructure balanced with the needs of shareholders for commercially appropriate returns.

Gas Control Final Authorisation

Vector continues to operate under a provisional authority while engaging with the Commission to reach final terms of an authorisation relating to its Auckland gas networks.

Review of Electricity Industry Reform Act

Changes being flagged in the third review of the Electricity Industry Reform Act since 2001 provide encouragement that we will be able to increase our investment in generation, where suitable opportunities arise.

We would welcome relaxation of the governance rules around lines companies’ involvement in generation and the opportunities this may present. However, we remain concerned about the extent to which the legislation assumes line companies are able to take advantage of their natural monopoly position, as we don’t believe this to be realistic. Sufficient safeguards exist in the generic competition legislation to address such concerns.

Electricity Commission

We continue our strong relationship with the Electricity Commission, including focus on transmission upgrades and transmission pricing methodology and the delivery of both in a timely manner. This is critical for security of supply. We are also focused on working with the Electricity Commission on demand side management innovations, as supported by the draft New Zealand Energy Strategy.
Security of supply

This remains an important focus with Vector welcoming the Electricity Commission’s approval of Transpower’s new transmission line between south Waikato and south Auckland. This will improve security of supply to the upper North Island.

Vector continues to work with Transpower on key initiatives, including use of our assets such as the Auckland tunnel, to ensure that the required security of supply enhancements across Auckland are constructed without unnecessary delay. Recently, we jointly commissioned with Transpower a review of supply into Auckland by the international energy company, Siemens. This raises some key issues for security of supply into Auckland and we continue to work with Transpower and the Electricity Commission on these matters.

Gas is a key contributor to supply security, both for electricity generators and as a stand alone energy service. Gas supplies are in a healthy state, with the commencement of production from fields like Pohokura and right of first refusal gas coming to market from Maui.

EECA

Another important agency that we work closely with is EECA – the Energy Efficiency and Conservation Authority. EECA has a central role going forward in driving many energy efficiency initiatives that align with Government objectives.

Climate Change Policy and New Zealand Energy Strategy

Vector has been closely involved in submitting and discussing climate change policies and the country’s energy strategy, and sees them as an opportunity to utilise our networks, future innovations and technologies to enable customers to access demand-side solutions for reducing greenhouse gas emissions and improving energy efficiency.

One aspect we will be following closely is the area of emissions trading. Vector favours an emissions trading system, but it will be complex and care must be taken in its design and such considerations as where obligations will lie.