



Commerce Act (Electricity Distribution Thresholds) Notice 2004

Threshold Compliance Statement

Section 1 - Price Path Threshold

23 May 2007

Price path threshold assessment as at 31 March 2007

Contents

INTRODUCTION 3

EXCLUSIONS 3

DISCLAIMER..... 4

STATEMENT OF COMPLIANCE 5

PUBLIC DISCLOSURE 5

PRICE PATH THRESHOLD REQUIREMENT (S5(1)(A) OF THE NOTICE) 6

SECOND PRICE PATH THRESHOLD REQUIREMENT (S5(1)(B) OF THE NOTICE)..... 10

SPECIFIED SERVICES 11

PASS-THROUGH COSTS 12

EXCLUDED SERVICES 13

APPENDIX 1 AUCKLAND RESIDENTIAL AND SMALL COMMERCIAL NOTIONAL REVENUE 15

APPENDIX 2 NORTHERN AND WELLINGTON NOTIONAL REVENUE EXCLUDING ASSET SPECIFIC AND NON-STANDARD 16

APPENDIX 3 NORTHERN AND WELLINGTON ASSET SPECIFIC AND NON-STANDARD NOTIONAL REVENUE 18

APPENDIX 4 AUCKLAND NETWORK, NON STANDARD NOTIONAL REVENUE..... 19

APPENDIX 5 AUCKLAND NETWORK, COMMERCIAL AND INDUSTRIAL NOTIONAL REVENUE (EXCLUDING ON-PEAK) ... 20

APPENDIX 6 WELLINGTON NETWORK, UTILITY RATE NOTIONAL REVENUE 21

APPENDIX 7 AUCKLAND, NORTHERN AND WELLINGTON ON-PEAK NOTIONAL REVENUE..... 22

APPENDIX 8 MEDIA STATEMENT BY THE COMMERCE COMMISSION 24

Introduction

- 1.1 This threshold compliance statement ("the Statement") is submitted by Vector Limited ("Vector") pursuant to s7(1)(a) of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 ("the Notice").
- 1.2 The Notice relates to the performance of electricity lines businesses as part of the Commerce Commission's ("the Commission") development and operation of a regulatory regime for such businesses, pursuant to Part 4A of the Commerce Act 1986.
- 1.3 The Notice requires lines businesses to publicly disclose information relevant to the assessment of their performance against the thresholds.
- 1.4 This section of the Statement pertains to the requirements of the Commission's price path threshold for the 31 March 2007 assessment date.
- 1.5 Vector, along with other lines businesses, is required to demonstrate that notional revenue calculated in accordance with the Notice has not increased by more than CPI-X (Vector's X is equal to 0) and changes in pass through costs, for the period from 1 April 2006 to 31 March 2007.
- 1.6 In this Statement Vector demonstrates that it would have complied with the price path threshold requirements, had it not been for a substantial reduction in Transmission charges (via a rebate) that Transpower announced as part of an interim settlement with the Commerce Commission for breaches of their price path threshold, after Vector had set its line charges. Most electricity lines companies are dealing with the same regulatory issues resulting from transmission rebates. The Commerce Commission issued a media statement that "the Commission would take no further action if lines businesses breach their price path thresholds solely as a result of responding appropriately to the 19% increase announced by Transpower", attached in Appendix 8
- 1.7 Tables contained in the Statement are aggregates of the attached appendices that reflect the price multiplied by the appropriate quantity for each pricing category.

Exclusions

- 1.8 Only a subset of Vector's services are relevant to the Commission's consideration under the Notice; namely electricity distribution goods or services or services directly related to electricity distribution.
- 1.9 Accordingly, as provided for in the Notice (definition of 'specified services'), Vector has excluded a range of services from this Statement. Where services related to electricity distribution are excluded, Vector has complied with the regulations by

demonstrating that there is workable or effective competition for the provision of those services.

- 1.10 Without prejudice to future compliance statements, Vector has taken a conservative approach to service exclusions. For example some services provided to large consumers and charter payments that could be considered for exclusion have not been excluded. Vector reserves its right to justify further service exclusions to the Commission in the future.

Disclaimer

- 1.11 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 As required by s7(1)(a) of the Notice, the Statement:

- (a) provides evidence in the form of revenues, notional revenues, prices, base quantities, pass-through costs, units of measurement associated with all numeric data, list of excluded services (and the reasons and supporting evidence for excluding these services), and other data, information and calculations that indicates Vector's non compliance with the price path threshold (as a result of the unexpected reduction in Transpower's prices subsequent to Vector notifying its tariffs for the pricing year);
- (b) provides evidence in the form of SAIDI and SAIFI statistics, relevant information from asset management plans, and other data, information, and calculations that confirm Vector's non-compliance with the reliability criteria (s6(1)(a) and (c)) due to reasons outside Vector's reasonable control;
- (c) provides a description of policies and procedures used by Vector to record SAIDI and SAIFI statistics; and
- (d) includes such other information as Vector considers is sufficient to enable the Commission to properly determine whether or not the thresholds have been breached.

Public disclosure

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

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

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

2.4 Copies of the Statement (containing the Auditor's Report and the Certificate) are available from 101 Carlton Gore Road, Newmarket, Auckland.

Price path threshold requirement (s5(1)(a) of the Notice)

3.1 As required by s5(1)(a), in order to demonstrate compliance with the price path threshold, lines businesses are required to demonstrate that their notional revenue at the assessment date has not exceeded the allowable notional revenue under the CPI-X price path at that assessment date. As outlined in the calculation below, Vector complies with this requirement when the reversal of the transmission price increase in 2006 by Transpower via its transmission rebates is excluded from the calculation.

Notice Requirement	Actual notional revenue divided by allowable notional revenue at the assessment date, excluding reversal of the transmission price increase	Is not to exceed	One
Notice expression	$\frac{NR_{2007}}{R_{2007}}$	\leq	1
Vector Result	$\frac{\$380,668,223}{\$385,750,003} = 0.9868$	\leq	1

3.2 The summary calculation of NR_{2007} and R_{2007} is provided below with the reversal of the transmission price increase excluded.

Vector's Allowable Notional Revenue, excluding the reversal of the transmission price increase, $R_{2007} = R_{2006}(1 + \Delta CPI_{2007})(1 - X)$	
Calculation Components	Amount
R_{2006} – is the allowable notional revenue under the CPI-X price path at 31 March 2006	\$373,203,718
ΔCPI_{2007} – the average change in the consumer price index over the calendar year that ends during the assessment period (calculated in accordance with the following expression): $\Delta CPI_{2007} = \frac{CPI_{Q1,2006} + CPI_{Q2,2006} + CPI_{Q3,2006} + CPI_{Q4,2006}}{CPI_{Q1,2005} + CPI_{Q2,2005} + CPI_{Q3,2005} + CPI_{Q4,2005}} - 1$ Where $CPI_{Qj,y}$ is the consumer price All Groups Index SE9A figure published by Statistics New Zealand for the quarter j in the calendar year y	$(3997/3867) - 1 = 3.36\%$
X – is the "X factor" value specified in Schedule 1 of the Notice for the distribution business, subject to clause 5(3)	0
Total Allowable Notional Revenue as at 31 March 2007	\$385,750,003

Vector's Actual Notional revenue, excluding the reversal of the transmission price increase, $NR_{2007} = \Sigma P_{i,2007} Q_i - K_{2007}$	
Calculation Components	Amount
$\Sigma P_{i,2007} Q_i$ – the sum of the prices as at 31 March 2007 multiplied by the corresponding base quantities for the year ending 31 March 2003	\$538,449,637
K_{2007} – the sum of all pass-through costs for the assessment period excluding transmission rebates from Transpower	(\$157,781,414)
Total Actual Notional Revenue as at 31 March 2007 but excluding transmission rebates	\$380,668,223

- 3.3 As per its contractual terms with customers and retailers, Vector was required to notify its standard prices in either December 2005 or January 2006 depending on the network. These prices were effective from 1 April 2006 and have not changed during the assessment period. Prices were established using forecasted costs and transmission charges advised by Transpower in November 2005.
- 3.4 At the time of advising transmission rates for 2006/2007, Transpower announced an increase in grid charges to support proposed future spend as part of the grid upgrade programme. Vector forecast its transmission costs for 2006/2007 based on the rates advised by Transpower incorporating this significant price increase.
- 3.5 Following the price increases announced by Transpower, and Vector's incorporation of these into its line charges, the Commission published on 31 January 2006 (updated 16 February 2006) a document titled 'Intention to declare control, Transpower New Zealand Ltd'. The Commission and Transpower subsequently negotiated an interim measure in order to delay any decision on whether to place Transpower's transmission services under control. Transpower's prices incorporating the transmission price increase continued to be billed, however rebates were included for a fixed monthly amount. These rebates were calculated on a basis agreed with the Commission and intended to maintain prices to the same level as those prevailing during the 2005/06 pricing year, before the new winter peaks emerged. The rebates had the effect of reducing Vector's overall transmission costs.
- 3.6 In notifying interim rebates, Transpower reserved its right to withdraw or adjust the rebates. Due to the uncertainty surrounding Transpower's rebates and since Vector had already notified prices to customers, Vector maintained its notified line charges set to recover forecast transmission cost at Transpower's published rates – namely the higher amount which excludes rebates.
- 3.7 Vector is waiting on further developments around the administrative settlement between the Commission and Transpower before determining rebate payments. Once an administrative settlement has been agreed and the existing uncertainties

around transmission rebates have been clarified, Vector will provide a rebate to customers whilst ensuring the principle of transmission cost pass-through is met.

3.8 The Commission has acknowledged that some lines companies may breach the price path threshold as a result of transmission rebates and that “the Commission would take no further action if lines businesses breach their price path thresholds solely as a result of responding appropriately to the 19% increase announced by Transpower”¹.

3.9 If the rebates are included in the calculation of s5(1)(a) Vector does not comply with the price path threshold as outlined in the calculations below. This is solely due to the transmission pass through costs being materially lower than what was originally advised by Transpower and consequently included in Vector’s tariffs. Further to the Commission’s statements Vector believes this is a technical non-compliance pending resolution of the transmission rebate issue.

Notice Requirement	Actual notional revenue divided by allowable notional revenue at the assessment date	Is not to exceed	One
Notice expression	$\frac{NR_{2007}}{R_{2007}}$	\leq	1
Vector Result	$\frac{\$399,254,512}{\$385,750,003} = 1.0350$	\neq	1

1

<http://www.comcom.govt.nz//MediaCentre/MediaReleases/200607/transpowerproposesnewprices.aspx#top> accessed 03 May 2005

3.10 The summary calculation of NR_{2007} and R_{2007} is provided below.

Vector's Allowable Notional Revenue, $R_{2007} = R_{2006}(1 + \Delta CPI_{2007})(1 - X)$	
Calculation Components	Amount
R_{2006} – is the allowable notional revenue under the CPI-X price path at 31 March 2006	\$373,203,718
ΔCPI_{2007} – the average change in the consumer price index over the calendar year that ends during the assessment period (calculated in accordance with the following expression): $\Delta CPI_{2007} = \frac{CPI_{Q1,2006} + CPI_{Q2,2006} + CPI_{Q3,2006} + CPI_{Q4,2006}}{CPI_{Q1,2005} + CPI_{Q2,2005} + CPI_{Q3,2005} + CPI_{Q4,2005}} - 1$	(3997/3867)-1 =3.36%
Where $CPI_{Qj,i}$ is the consumer price All Groups Index SE9A figure published by Statistics New Zealand for the quarter j in the calendar year y	
X – is the "X factor" value specified in Schedule 1 of the Notice for the distribution business, subject to <i>clause 5(3)</i>	0
Total Allowable Notional Revenue as at 31 March 2007	\$385,750,003

Vector's Actual Notional revenue, $NR_{2007} = \Sigma P_{i,2007} Q_i - K_{2007}$	
Calculation Components	Amount
$\Sigma P_{i,2007} Q_i$ – the sum of the prices as at 31 March 2007 multiplied by the corresponding base quantities for the year ending 31 March 2003	\$538,449,637
K_{2007} – the sum of all pass-through costs for the assessment period	(\$139,195,125)
Total Actual Notional Revenue as at 31 March 2007	\$399,254,512

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

- 4.1 Under s5(1)(b), the notional revenue of a distribution business at any time during an assessment period is not to exceed the greater of the allowable notional revenue of the distribution business at the assessment date on which that assessment period ends and the allowable notional revenue of the distribution business at the previous assessment date.
- 4.2 If the reversal of the transmission price increase is excluded from the calculation then Vector complies with s5(1)(b) of the Notice as Vector's notional revenue throughout the assessment period does not exceed the allowable notional revenue of \$385,750,003 at the assessment date.
- 4.3 Consistent with paragraph 3.9 if the reversal of the transmission price increase is included in the calculation then Vector does not comply with s5(1)(b) of the Notice as Vector's notional revenue throughout the assessment period exceeds the allowable notional revenue at the assessment date. Vector believes this is a technical non-compliance pending resolution of the outstanding transmission rebate issues.

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 assessable revenue sources for Vector with the corresponding notional revenues for the relevant date.

Description		Appendix	Year ended 31 March 2007
5.3	Auckland residential and small commercial notional revenue.	1	\$161,574,238
5.4	Northern and Wellington notional revenue excluding asset specific and non-standard.	2	\$230,697,079
5.5	Northern and Wellington asset specific and non-standard notional revenue.	3	\$37,529,054
5.6	Auckland Network, non-standard notional revenue.	4	\$10,638,973
5.7	Auckland Network, commercial and industrial notional revenue (excluding on-peak).	5	\$67,022,063
5.8	Wellington Network, utility rate notional revenue	6	\$2,325,995
5.9	Auckland, Northern and Wellington on-peak notional revenue.	7	\$28,662,235
5.10	Total Specified Services		\$538,449,637

Pass-Through Costs

6.1 The table below provides the break down of pass-through costs incurred by Vector over the assessment period.

Description	Year to 31 March 2007 (million) Actual
Transmission	\$133.025
Utility Rates Summary	\$5.028
EC Levy Summary	\$1.142
Total	\$139.195

6.2 The transmission quantities are the sum of actual charges paid or payable for the year ending 31 March 2007 and include the reversal of the transmission price increase.

6.3 The total cost of utility rates charged to Vector and applicable to the electricity business for the year ending 31 March 2007 are the total expensed in the financial year to 31 March 2007.

6.4 The market operations and registry and switching components of the EC Levies charged to Vector for the year ending 31 March 2007 are the total paid or payable in the financial year to 31 March 2007.

Excluded Services

- 7.1 Vector operates in the instantaneous reserves market. The market is fully contestable and income is derived as a result of a competitive tendering process and is not associated with the conveyance of electricity.
- 7.2 The following activities are excluded services in accordance with paragraph (e) of the definition of specified services s3(1) as these income sources are not related to electricity distribution and/or are non conveyance activities:
- (a) Vector Gas: Vector's Gas Business, which is a separate business that includes Vector's gas distribution network in Auckland and the recently acquired business formerly operating as NGC.
 - (b) Vector Communications: Vector's Telecommunication Network, which is a separate business operating high bandwidth fibre optic communication networks.
 - (c) Vector's electricity, telecommunications and gas training institute Utilitech, which offers technical and safety training across a wide range of markets (and in competition to other training providers).
 - (d) 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.
 - (e) Treescape: 50% owned by Vector, providing vegetation management and tree trimming services to third parties, including territorial authorities.
 - (f) Advertising revenue generated through the ownership of billboards, where Vector provides public display space to advertising companies at selected properties.
 - (g) Electrical work carried out at the request of consumers on their property.
 - (h) Use of network poles by third parties e.g. Telecommunication companies (noting that there are options available to network operators other than use of Vector's poles).
 - (i) Miscellaneous other revenue, for example, rentals received from properties, profit on sale of assets and interest received.
- 7.3 The following activities are excluded services in accordance with paragraph (d) of the definition of specified services s3(1) as these income sources are derived from clearly contestable activities for the provision of which there is workable or effective competition:

- (a) Management services to other companies, such as the provision of Linelogix, a product used to provide proactive outage notification by retailers to their customers.
- (b) Rental income from generator hire, where Vector sources and provides stand-by generation.
- (c) Where requested by consumers, any income from sourcing power quality equipment.
- (d) Call centre management of fault calls for some retailers.
- (e) MARIA registry management service for embedded network operators.
- (f) Miscellaneous other revenue, for example, value added services from products like MIDEL transformer fluid.

7.4 The following activities are excluded services in accordance with paragraph (i) of the definition of specified services s3(1) as they are contestable activities for the provision of which there is workable or effective competition;

- (a) Connections services.
- (b) Disconnection services.
- (c) Reconnection services.

Vector allows other suitably trained and authorised service providers to undertake connection, disconnection and reconnection services.

7.5 Vector receives income from parties requiring network extensions or alterations, reflecting the level of investment undertaken by Vector. This has been excluded from the price path threshold compliance calculation because;

- (a) Vector contributes to the total cost of the extension. Assets are vested in Vector on behalf of consumers, but consumers can also 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, third parties can select the contractors to construct the works.
- (b) Consumers may choose to contract with a third party to construct and maintain such assets, rather than providing Vector with a contribution. Therefore, workable or effective competition exists for such services and customer contributions are appropriately excluded. (Refer also to the Commerce Commission Investigation Ref J5131, which is publicly available).

Appendix 1 Auckland residential and small commercial notional revenue

- For each price plan or load group the base quantity (number of end consumers or annual energy of all consumers) were retrieved from the appropriate information systems for the year ending 31 March 2003.
- Prices applicable for the assessment period have been taken from Vectors published price schedules.
- Where Vector has re-structured prices during the assessment period and the price no longer has a one for one relationship to the base quantities, the base quantity has been mapped to the price at the assessment date.
- Base quantities were multiplied by the price applicable to the price plan or load group to determine the notional revenue for the assessment period.
- Previous threshold compliance statements disclosed by Vector showed a calculation for Vector's Auckland residential and small commercial consumers in conjunction with two additional calculations; one for embedded networks in the Vector region that were previously owned by UnitedNetworks on standard residential and small commercial line charges and another for similar embedded networks on commercial and industrial Vector tariffs.
- Since 1 April 2004 the embedded sub-divisions have been incorporated into the Vector network and charged the appropriate Vector rate. However, they have still been shown separately in each respective compliance statement.
- This threshold compliance statement has incorporated the calculation for the ex-UnitedNetworks embedded networks which were on standard Vector residential and small commercial tariffs into the calculation for Vector's Auckland residential and small commercial consumers, consolidating two previous calculations into one.
- The calculation for the ex-UnitedNetworks embedded networks which were on commercial and industrial Vector tariffs continue to be shown separately, however they have been moved to Appendix 5 as this appendix shows the calculation for other consumers on similar charges.

Appendix 1								
Auckland residential and small commercial notional revenue								
THRESH1.0 b-6								
Sum (\$)								161,574,238
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)	
VEC	Variable	RR-V	1,704,627,536	kWh	0.0547	\$/kWh	93,243,126	
VEC	Variable	RE-V	132,024,682	kWh	0.0639	\$/kWh	8,436,377	
VEC	Variable	SS-V	147,839,855	kWh	0.0582	\$/kWh	8,604,280	
VEC	Variable	SM-V	569,828,744	kWh	0.0622	\$/kWh	35,443,348	
VEC	Fixed	RR-F	223,061	ICPs	0.1150	\$/day	9,362,985	
VEC	Fixed	RE-F	34,259	ICPs	0.1150	\$/day	1,438,022	
VEC	Fixed	SS-F	16,640	ICPs	0.2061	\$/day	1,251,769	
VEC	Fixed	SM-F	13,307	ICPs	0.7812	\$/day	3,794,331	

Appendix 2 Northern and Wellington notional revenue excluding asset specific and non-standard

- For each price plan or load group the base quantity (number of end consumers or annual energy of all consumers) was retrieved from the appropriate information systems for the year ending 31 March 2003.
- Prices applicable for the assessment period have been taken from Vectors published price schedules.
- Where Vector has re-structured prices during the assessment period and the price no longer has a one for one relationship to the base quantities, the base quantity has been mapped to the price at the assessment date.
- Base quantities were multiplied by the price applicable to the price plan or load group to determine the notional revenue for the assessment period.
- In each year Vector has mapped the appropriate base quantity directly to the price at each respective assessment date, i.e. the mapping used for this compliance statement is not dependent on the mapping used for the 2006 compliance statement.

Appendix 2								
Northern and Wellington notional revenue excluding asset specific and non-standard								
THRESH1.0 b-6								
Sum (\$)								230,697,079
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)	
UNG	Fixed	08G	160	ICPs	0.5143	\$/day	30,035	
UNG	Fixed	09G	2	ICPs	0.9788	\$/day	715	
UNG	Fixed	11G	1	ICPs	0.1158	\$/day	42	
UNG	Fixed	20G	1	ICPs	0.9788	\$/day	357	
UNG	Fixed	G01	52	ICPs	0	\$/day	0	
UNG	Fixed	G02	65	ICPs	0	\$/day	0	
UNG	Fixed	G11	49,475	ICPs	0.1158	\$/day	2,091,160	
UNG	Fixed	G12	83,848	ICPs	0.1158	\$/day	3,544,003	
UNG	Fixed	G13	3,521	ICPs	0.1158	\$/day	148,822	
UNG	Fixed	G14	2,508	ICPs	0.1158	\$/day	106,006	
UNG	Fixed	G15	2,041	ICPs	0.2062	\$/day	153,612	
UNG	Fixed	G16	1,412	ICPs	0.2062	\$/day	106,271	
UNG	Fixed	G17	5	ICPs	0.2062	\$/day	376	
UNG	Fixed	G18	1	ICPs	0.2062	\$/day	75	
UNG	Fixed	G20	11,271	ICPs	0.9788	\$/day	4,026,700	
UNG	Fixed	G21	201	ICPs	0.9788	\$/day	71,810	
UNG	Fixed	G22	94	ICPs	10.0701	\$/day	345,505	
UNG	Fixed	G23	87	ICPs	10.0701	\$/day	319,776	
UNG	Fixed	G24	9	ICPs	26.2377	\$/day	86,191	
UNG	Fixed	G26	4	ICPs	31.4852	\$/day	45,968	
UNG	Variable	01G/AICO	63,500	kWh	0.135	\$/kWh	8,573	
UNG	Variable	02G/AICO	6,635	kWh	0.135	\$/kWh	896	
UNG	Variable	08G_N/A	292,000	kWh	0.0726	\$/kWh	21,199	
UNG	Variable	09G_N/A	60,590	kWh	0.0697	\$/kWh	4,223	
UNG	Variable	10G/24UC	2,226	kWh	0.0653	\$/kWh	145	
UNG	Variable	10G/CT17	872	kWh	0.0653	\$/kWh	57	
UNG	Variable	10G/CTUD	1,526	kWh	0.0653	\$/kWh	100	
UNG	Variable	10G/NITE	1,600	kWh	0.0141	\$/kWh	23	
UNG	Variable	10G/T24U	56,265	kWh	0.0653	\$/kWh	3,674	
UNG	Variable	11G/TAIC	162,245	kWh	0.0653	\$/kWh	10,595	
UNG	Variable	12G/TAIC	5,677	kWh	0.0653	\$/kWh	371	
UNG	Variable	20G/CT17	6,607	kWh	0.0697	\$/kWh	461	
UNG	Variable	20G/CTUD	10,190	kWh	0.0697	\$/kWh	710	
UNG	Variable	20G/NITE	27,630	kWh	0.0697	\$/kWh	1,926	
UNG	Variable	20G/T24U	13,946,794	kWh	0.0697	\$/kWh	972,092	
UNG	Variable	G01/24UC	2,842,456	kWh	0.135	\$/kWh	383,732	
UNG	Variable	G02/24UC	15,574,116	kWh	0.135	\$/kWh	2,102,506	
UNG	Variable	G11/AICO	177,498,228	kWh	0.0653	\$/kWh	11,590,634	
UNG	Variable	G11/NITE	3,712,478	kWh	0.0141	\$/kWh	52,346	
UNG	Variable	G11/PROJ	93,355,081	kWh	0.0653	\$/kWh	6,096,087	
UNG	Variable	G12/AICO	513,028,975	kWh	0.0653	\$/kWh	33,500,792	
UNG	Variable	G12/NITE	12,007,991	kWh	0.0141	\$/kWh	169,313	
UNG	Variable	G12/PROJ	247,099,978	kWh	0.0653	\$/kWh	16,135,629	
UNG	Variable	G13/24UC	24,532,704	kWh	0.0829	\$/kWh	2,033,761	
UNG	Variable	G13/CTRL	6,402,736	kWh	0.0389	\$/kWh	249,066	
UNG	Variable	G13/NITE	1,240,823	kWh	0.0141	\$/kWh	17,496	

Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)
UNG	Variable	G14/24UC	8,566,756	kWh	0.0829	\$/kWh	710,184
UNG	Variable	G14/CTRL	2,522,718	kWh	0.0389	\$/kWh	98,134
UNG	Variable	G14/NITE	1,510,998	kWh	0.0141	\$/kWh	21,305
UNG	Variable	G15/AICO	10,046,912	kWh	0.0638	\$/kWh	640,993
UNG	Variable	G15/NITE	15,352	kWh	0.0638	\$/kWh	979
UNG	Variable	G16/AICO	21,626,530	kWh	0.0638	\$/kWh	1,379,773
UNG	Variable	G16/NITE	8,801	kWh	0.0638	\$/kWh	562
UNG	Variable	G17/24UC	32,193	kWh	0.0638	\$/kWh	2,054
UNG	Variable	G17/CTRL	7,188	kWh	0.0638	\$/kWh	459
UNG	Variable	G18/24UC	1,443	kWh	0.0638	\$/kWh	92
UNG	Variable	G18/CTRL	752	kWh	0.0638	\$/kWh	48
UNG	Variable	G20/24UC	263,881,648	kWh	0.0697	\$/kWh	18,392,551
UNG	Variable	G20/CTRL	1,287,221	kWh	0.0697	\$/kWh	89,719
UNG	Variable	G20/CTUD	6,817,876	kWh	0.0697	\$/kWh	475,206
UNG	Variable	G20/CTUN	549,402	kWh	0.0697	\$/kWh	38,293
UNG	Variable	G20/NITE	2,797,915	kWh	0.0697	\$/kWh	195,015
UNG	Variable	G20/PROJ	83,450,150	kWh	0.0697	\$/kWh	5,816,475
UNG	Variable	G20TAIC	9,471	kWh	0.0697	\$/kWh	660
UNG	Variable	G21/24UC	4,397,698	kWh	0.0697	\$/kWh	306,520
UNG	Variable	G22/24UC	3,115,756	kWh	0.0423	\$/kWh	131,796
UNG	Variable	G22/CTUD	82,906	kWh	0.0423	\$/kWh	3,507
UNG	Variable	G22/NITE	45,262	kWh	0.0141	\$/kWh	638
UNG	Variable	G23/24UC	554,952	kWh	0.0423	\$/kWh	23,474
UNG	Variable	G24/24UC	464,742	kWh	0.037	\$/kWh	17,195
UNG	Variable	G26/24UC	270,300	kWh	0.037	\$/kWh	10,001
UNW	Fixed	08W	938	ICPs	0.5143	\$/day	176,081
UNW	Fixed	09W	2	ICPs	0.98	\$/day	715
UNW	Fixed	20W	9	ICPs	1.25	\$/day	4,106
UNW	Fixed	21W	1	ICPs	4.5	\$/day	1,643
UNW	Fixed	22W	3	ICPs	15.3753	\$/day	16,836
UNW	Fixed	23W	8,372	ICPs	1.25	\$/day	3,819,725
UNW	Fixed	24W	1,340	ICPs	4.5	\$/day	2,200,950
UNW	Fixed	25W	308	ICPs	15.3753	\$/day	1,728,491
UNW	Fixed	26W	270	ICPs	22.1438	\$/day	2,182,271
UNW	Fixed	W01	16	ICPs	0	\$/day	0
UNW	Fixed	W02	119	ICPs	0	\$/day	0
UNW	Fixed	W11	54,132	ICPs	0.15	\$/day	2,963,727
UNW	Fixed	W12	113,880	ICPs	0.15	\$/day	6,234,930
UNW	Fixed	W13	123	ICPs	0.15	\$/day	6,734
UNW	Fixed	W14	5	ICPs	0.15	\$/day	274
UNW	Fixed	W15	5,199	ICPs	0.2061	\$/day	391,103
UNW	Fixed	W16	4,253	ICPs	0.2061	\$/day	319,938
UNW	Fixed	W17	19	ICPs	0.2061	\$/day	1,429
UNW	Fixed	W27	26	ICPs	0.98	\$/day	9,300
UNW	Fixed	W28	77	ICPs	41.382	\$/day	1,163,041
UNW	Fixed	W29	19	ICPs	40.3535	\$/day	279,852
UNW	Variable	08W_N/A	1,711,850	kWh	0.0702	\$/kWh	120,172
UNW	Variable	09W_N/A	27,010	kWh	0.0723	\$/kWh	1,953
UNW	Variable	11W/TAIC	37,865	kWh	0.0604	\$/kWh	2,287
UNW	Variable	12W/TAIC	200	kWh	0.0604	\$/kWh	12
UNW	Variable	13W/TAIC	20,152	kWh	0.0332	\$/kWh	669
UNW	Variable	20W/TAIC	76,944	kWh	0.04	\$/kWh	3,078
UNW	Variable	21W/TAIC	364	kWh	0.045	\$/kWh	16
UNW	Variable	22W/TAIC	6,766	kWh	0.0153	\$/kWh	104
UNW	Variable	23W/TAIC	181,474,819	kWh	0.04	\$/kWh	7,258,993
UNW	Variable	24W/TAIC	71,963,289	kWh	0.045	\$/kWh	3,238,348
UNW	Variable	25W/TAIC	23,738,706	kWh	0.0153	\$/kWh	363,202
UNW	Variable	26W/TAIC	23,354,741	kWh	0.014	\$/kWh	326,966
UNW	Variable	DEFT/NTH	3,079	kWh	0.1019	\$/kWh	314
UNW	Variable	W01/24UC	81,854	kWh	0.1019	\$/kWh	8,341
UNW	Variable	W02/24UC	15,304,737	kWh	0.1019	\$/kWh	1,559,553
UNW	Variable	W11/AICO	301,115,912	kWh	0.0604	\$/kWh	18,187,401
UNW	Variable	W11/NITE	74,207	kWh	0.0141	\$/kWh	1,046
UNW	Variable	W12/AICO	1,006,462,690	kWh	0.0604	\$/kWh	60,790,346
UNW	Variable	W12/NITE	2,022,039	kWh	0.0141	\$/kWh	28,511
UNW	Variable	W13/24UC	1,133,614	kWh	0.0785	\$/kWh	88,989
UNW	Variable	W13/CTRL	85,084	kWh	0.0332	\$/kWh	2,825
UNW	Variable	W14/24UC	20,616	kWh	0.0785	\$/kWh	1,618
UNW	Variable	W14/CTRL	16,359	kWh	0.0332	\$/kWh	543
UNW	Variable	W15/AICO	16,295,728	kWh	0.0589	\$/kWh	959,818
UNW	Variable	W15/NITE	2,580	kWh	0.0589	\$/kWh	152
UNW	Variable	W16/AICO	47,553,080	kWh	0.0589	\$/kWh	2,800,876
UNW	Variable	W16/NITE	1,945	kWh	0.0589	\$/kWh	115
UNW	Variable	W17/24UC	242,390	kWh	0.0589	\$/kWh	14,277
UNW	Variable	W17/CTRL	1,988	kWh	0.0589	\$/kWh	117
UNW	Variable	W27/24UC	5,885,716	kWh	0.0723	\$/kWh	425,537
UNW	Variable	W27/CTRL	14,062	kWh	0.0723	\$/kWh	1,017
UNW	Variable	W28/24UC	10,170,726	kWh	0.017	\$/kWh	172,902
UNW	Variable	W28/CTRL	146,087	kWh	0.0118	\$/kWh	1,724
UNW	Variable	W28TTAIC	752,251	kWh	0.0118	\$/kWh	8,877
UNW	Variable	W29/24UC	1,956,859	kWh	0.017	\$/kWh	33,267
UNW	Variable	W29TTAIC	212,446	kWh	0.0118	\$/kWh	2,507

Appendix 3 Northern and Wellington asset specific and non-standard notional revenue

- There are 23 ICPs in the base quantities for the Northern G60 asset specific load group. 20 of these ICPs have moved onto a new on-peak pricing methodology introduced on 1 April 2006. The remaining 3 ICPs are on individual (contracted) prices and have been calculated separately in the same manner as previous threshold compliance statements.
- There are 25 ICPs in the base quantities for the Wellington G60 asset specific load group. All of these ICPs have moved onto the on-peak pricing methodology.
- More detail regarding on-peak pricing is provided in Appendix 7.
- The 301 Northern G40 standard asset specific load group ICPs continue to be charged on the same methodology as with previous threshold compliance statements.
- Of the 639 ICPs on G40 and G60 Standard pricing, one has changed pricing plans and has been calculated accordingly. The remaining 638 have been charged on the same basis as previous threshold compliance statements.
- ICPs with connected capacities in excess of 300 kVA in the Wellington and Northern Regions that have asset specific charges are assessed annually and charged as daily fixed line charges.
- Each of these consumers has an individual price and has therefore been treated as an individual pricing category.
- Where a consumer has upgraded/downgraded their connection Vector has moved them to the applicable price category.
- ICPs with connected capacities in excess of 300 kVA in the Wellington and Northern Regions that have asset specific charges also have a published reactive charge. The charge is fully variable, and is avoidable by customers installing their own power factor correction equipment.
- Revenue from reactive charges has been excluded from the notional revenue calculation.
- The structure and application of this charge is such that the quantities cannot be definitively identified. The notional revenue therefore cannot be sensibly determined. Compliance with the substance of s5(1) has been demonstrated through an alternative approach (as provided for under s 5(5)), namely that the rate and its application has been unchanged since prior to 8 August 2001.

Appendix 3							
Northern and Wellington asset specific and non-standard notional revenue							
THRESH1.0 b-6							
Sum (\$)							37,529,054
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)
UNG		G40-G49 & 60G	639	ICPs			25,431,135
UNG		G40-G49 & 60G	543,213,575	kWh			
UNW		40W	301	ICPs			11,498,229
UNW		40W	295,842,886	kWh			
UNW		60W	3	ICPs			599,690
UNW		60W	25,608,491	kWh			

Appendix 4 Auckland Network, non standard notional revenue

- Vector's non-standard contracts fall into four categories:
 1. Fixed Monthly Charge
 2. Standard Charges less Fixed Discount
 3. Street lighting
 4. Embedded generation

Appendix 4								
Auckland Network, non standard notional revenue								
THRESH1.0 b-6								
Sum (\$)							10,638,973	
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue [€]	
VEC	Fixed Contract	99001_APL-002	12	months	42,000	\$/month	504,000	
VEC	Fixed Contract	99002_APL-001,3,4	12	months	89,187	\$/month	1,070,246	
VEC	Fixed Contract	99006_AIA-1,2,3,4,5	12	months	152,752	\$/month	1,833,019	
VEC	Fixed Contract	99004_FPA-001	12	months	17,205	\$/month	206,461	
VEC	Fixed Contract	99005_FPH-001	12	months	14,077	\$/month	168,923	
VEC	Fixed Contract	99009_PAC-001,2	12	months	255,757	\$/month	3,069,080	
VEC	Fixed Contract	99007_WIR-001	12	months	10,043	\$/month	120,510	
VEC	Fixed Contract	99003_WCFD,FM-001	12	months	44,703	\$/month	536,440	
VEC	Fixed Contract	99016_ACI-002,3	12	months	51,667	\$/month	620,000	
VEC	Discount on Standard	99008	12	months	-	1,667	\$/month	-20,000
VEC	Discount on Standard		12	months	-		\$/month	0
VEC	Discount on Standard		12	months	-		\$/month	0
VEC	Discount on Standard		12	months	-		\$/month	0
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99012	12	months	14,933	\$/month	179,190	
VEC	Streetlighting	99011_MCCS-001	12	months	85,997	\$/month	1,031,970	
VEC	Streetlighting		12	months	-		\$/month	0
VEC	Streetlighting		12	months	-		\$/month	0
VEC	Streetlighting		12	months	-		\$/month	0
VEC	Streetlighting		12	months	-		\$/month	0
VEC	Streetlighting		12	months	-		\$/month	0
VEC	Embedded Generation	99018	12	months	5,400	\$/month	64,800	

Appendix 5 Auckland Network, commercial and industrial notional revenue (excluding on-peak)

- As per appendix 1, the calculation for commercial and industrial consumers on the ex-UnitedNetworks embedded networks were previously shown combined with the Vector standard line charge revenue for residential and small commercial consumers. This information is now shown in this appendix.
- Some high voltage ("HV") consumers have now moved onto the on-peak pricing methodology and have been calculated separately in appendix 7.

Appendix 5							
Auckland Network, commercial and industrial notional revenue (excluding on-peak)							
THRESH1.0 b-6							
Sum (\$)							67,022,063
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)
VEC	HV		11	ICP			
VEC	HV		165,202	kVA			103,008
VEC	HV		121,166	kVA			774,064
VEC	HV		60,026,339	kWh			810,521
VEC	TX		763	ICP			
VEC	TX		4,834,947	kVA			3,950,280
VEC	TX		2,466,644	kVA			16,528,689
VEC	TX		890,951,454	kWh			13,313,741
VEC	TX Derived		90	ICP			
VEC	TX Derived		218,617	kVA			224,961
VEC	TX Derived		33,493	kVA			0
VEC	TX Derived		7,388,471	kWh			424,911
VEC	LV3		1939	ICP			
VEC	LV3		4,278,879	kVA			3,623,339
VEC	LV3		1,901,016	kVA			13,047,458
VEC	LV3		596,109,751	kWh			9,356,357
VEC	LV3 Derived		750	ICP			
VEC	LV3 Derived		1,085,320	kVA			923,314
VEC	LV3 Derived		305,081	kVA			0
VEC	LV3 Derived		61,373,806	kWh			3,529,608
VEC	Ex Embedded TX		18	ICP			
VEC	Ex Embedded TX		4,843	kVA			51,693
VEC	Ex Embedded TX		32,478	kVA			216,623
VEC	Ex Embedded TX		12,624,387	kWh			143,496

Appendix 6 Wellington network, utility rate notional revenue

- Several territorial local authorities in the greater Wellington region introduced a utility rate 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

Appendix 6							
Wellington network, utility rate notional revenue							
THRESH1.0 b-6							
Sum (\$)							2,325,995
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)
UNG	Fixed	Council Utility Charge	186,333	Connection	0.0342	\$/day	2,325,995

Appendix 7 Auckland, Northern and Wellington on-peak notional revenue

- The introduction of on-peak pricing on 1 April 2006 was undertaken to send appropriate price signals to consumers reflecting underlying costs structures. The on-peak load groups introduced a number of rates that did not have matching base quantities.
- In order to undertake the calculation of notional revenue Vector has taken a year worth of half hourly ("HH") data for each ICP. From this HH data Vector has determined revised base quantities for each ICP that correspond to the new on-peak prices.
- G60 consumers in Northern and Wellington on asset specific load groups that have now moved to the on-peak pricing methodology previously had base quantities that related to the 2002 calendar year as was prescribed by their pricing methodology at the time. The on-peak pricing methodology uses monthly bills rather than calendar volumes from the previous year. Due to the difference in timing between the original base quantities and the new ones and the necessity to get HH data a complete set of HH data was sourced for the year ending 31 March 2003.
- In some cases a complete set of HH actual data was not available for this period.
- On the Northern and Wellington networks where data was incomplete, Vector has used data projected by the retailer at that time. This affects 2% of the total data.
- As part of the 2006 compliance statement Vector used an alternative approach to introduce base quantities for large commercial consumers on the Auckland network. These quantities related to the year ending 31 March 2004 due to data quality issues for prior periods.
- Given that Vector had monthly energy sums covering the correct annual period, these quantities were profiled into HH periods so that appropriate demand base quantities could be derived as defined by the on-peak pricing methodology.
- Vector has sourced HH data for the year ending 31 March 2004. Not all ICPs have complete HH data for this period. In such cases Vector has sourced HH data for the year ending 31 March 2005. In some cases this was also unavailable.
- Based on the HH data outlined above, Vector profiled the base quantities into HH periods. Where no 03/04 data existed then 04/05 data was used for the apportionment. Where no data existed at all, Vector used the average of the 03/04 and 04/05 profiles for apportionment.
- HV consumers on the Auckland network were placed on on-peak pricing. In some cases HV consumers did not have the appropriate metering to move onto this pricing methodology. Where this is the case they have remained on the old HV price plans. The metering type was determined by a report run from Vector's billing database which identified 11 HV consumers without HH metering.

Appendix 7							
Auckland, Northern and Wellington on-peak notional revenue							
THRESH1.0 b-6							
Sum (\$)							28,662,235
Network	2002/2003 Charge Type	2002/2003 Tariff Code	Base Quantity (Q)	Base Q Unit	2006/2007 Price (P)	Price Unit	P*Q Notional Revenue (\$)
VEC	Variable	ALI60_24UC	596,553,366	kWh	0.00105	\$/kWh	626,381
VEC	Demand	ALI60_DOPC	898,919	kW	10.95	\$/kW	9,843,165
VEC	Demand	ALI60_DOPU	495,344	kW	11.42	\$/kW	5,656,828
VEC	Demand	ALI60_DOPR	146	kW	13.85	\$/kW	2,028
VEC	Connection	ALI60_CAPH	2,120,484	kVA-month	0.0215	\$/kVA/day	1,390,548
VEC	Reactive	ALI60_PWRF	235,454	kVAr	7	\$/kVAr	1,648,180
UNG	Variable	GLI60_24UC	157,784,549	kWh	0.00105	\$/kWh	165,674
UNG	Demand	GLI60_DOPC	222,254	kW	9.46	\$/kW	2,102,525
UNG	Demand	GLI60_DOPU	214,529	kW	9.85	\$/kW	2,113,112
UNG	Connection	GLI60_CAPH	48,000	kVA-month	0.0215	\$/kVA/day	31,390
UNG	Connection	GLI60_CAPT	768,900	kVA-month	0.0238	\$/kVA/day	556,620
UNG	Reactive	GLI60_PWRF	57,346	kVAr	7	\$/kVAr	401,420
UNW	Variable	WLI60_24UC	168,187,577	kWh	0.00105	\$/kWh	176,597
UNW	Demand	WLI60_DOPC	213,370	kW	8.14	\$/kW	1,736,834
UNW	Demand	WLI60_DOPU	130,743	kW	8.46	\$/kW	1,106,086
UNW	Demand	WLI60_DOPR	34,343	kW	10.09	\$/kW	346,525
UNW	Connection	WLI60_CAPH	252,000	kVA-month	0.0215	\$/kVA/day	164,798
UNW	Connection	WLI60_CAPT	444,000	kVA-month	0.0238	\$/kVA/day	321,419
UNW	Reactive	WLI60_PWRF	38,872	kVAr	7	\$/kVAr	272,107

Appendix 8 Media statement by the Commerce Commission

[<< Back](#)

Transpower proposes new prices

Release No. 70, Issued 4 December 2006

Transpower has told the Commerce Commission that it is advising customers today of its proposed prices for 2006/07 and 2007/08.

The Commerce Commission accepts that Transpower needs to notify customers now. Transpower's pricing year starts on 1 April, and the company is required to advise customers of prices at least three months in advance.

Transpower proposes to raise prices on 1 April 2007 by an average of 15.2% over the March 2006 level. This comprises a 12.2% increase backdated until 1 April 2006, compounded with a 2.7% increase to apply from 1 April 2007.

Transpower had originally announced that it would raise prices by 19% in 2006/07, and forecast an average 13% price increase over each of the four subsequent years, starting from 2007/08. The Commerce Commission believed these rises were not justified, and in December 2005 announced its intention to declare control of Transpower's transmission services.

In March 2006, Transpower announced it was seeking an administrative settlement with the Commission as an alternative to regulatory control being imposed. At that time, Transpower agreed to provide its customers with a credit equivalent to the planned price increases, effectively cancelling the 19% increase.

(Transpower has decided to continue that credit for the entire pricing year, through until 31 March 2007. Electricity lines businesses, or in some cases retailers, have been holding that credit. In April 2007 the electricity lines businesses and retailers will pass the credit back to electricity users.)

The prices announced by Transpower today mean that, instead of the 19% rise, Transpower customers will now face a 12.2% increase for the 2006/07 year.

However, customers will not feel this increase immediately as it will be recovered by Transpower through adjustments to future prices via Transpower's Economic Valuation Accounts. These accounts are designed to ensure that over time Transpower does not over or under recover revenue from customers.

On 1 April 2007, Transpower's customers will have to pay the increases which now apply for the 2006/07 pricing year (which average 12.2%) plus the planned increases for 2007/08 pricing year (which average 2.7%), a total average increase of 15.2%.

"Transpower and the Commission are still in talks over a possible administrative settlement, but the Commission accepts that Transpower needs to announce its prices now," says Commerce Commission Chair Paula Rebstock.

"While discussions continue on a possible administrative settlement, the Commission's preliminary view is that these are appropriate prices for these two years."

Any final decision on prices would be subject to consultation on an administrative settlement, or any other regulatory outcome, Ms Rebstock says.

"There will be a high level of transparency in these processes to assure the public and interested parties that the end result is in the best long term interests of consumers."

Ms Rebstock said that Transpower was working with the Commission to resolve matters in a way consistent with the purpose of the regulatory regime.

<http://www.comcom.govt.nz/IndustryRegulation/Electricity/ElectricityLinesBusinesses/transpowerpr...> 04/05/2007

"The Commission remains optimistic that an administrative settlement can be reached," Ms Rebstock says.

"These price rises are substantially less than those originally announced by Transpower," says Ms Rebstock.

"That underscores the value of the regulatory oversight provided under the Commerce Act."

Ms Rebstock said that the Commission would take no further action if lines businesses breach their price path thresholds solely as a result of responding appropriately to the 19% increase announced by Transpower.

Background

Transpower. Transpower is the State Owned Enterprise that owns and operates the national grid. As a natural monopoly, Transpower is regulated by the Commerce Commission. The company has 45 customers, 35 electricity lines businesses and 10 directly connected industrial plants.

Reasons for intention to declare control. The Commerce Commission announced its intention to declare control of Transpower on 22 December 2005 because it considered there to be evidence that: Transpower's approach to the Electricity Commission investment approval processes was likely to result in investment outcomes inconsistent with the objectives of the regulatory regime; Transpower's planned price increases would have allowed it to recover the cost of investments that have not yet been approved or made; and the planned timing of Transpower's price increases was not consistent with the company's forecast capital expenditure.

The regime. The Commerce Commission administers regulation of 28 electricity distribution companies and Transpower under Part 4A of the Commerce Act. The companies are regulated because they face limited competition, and without regulation could charge too much for their services and earn excess profits.

The companies are regulated by having thresholds set for them that govern the quality of services they deliver and / or how much they can raise their prices by each year. The price thresholds are linked to the Consumer Price Index rate of inflation.

Since the targeted thresholds regime was implemented in 2001, the Commission published its intention to declare control three times, of Unison Networks' electricity distribution services in September 2005, of Transpower's transmission services in December 2005, and of Vector's electricity distribution services in August 2006. In all three instances the Commission is now in the process of considering administrative settlements that, if agreed, would remove the need for control to be imposed.

Control. If companies breach price or quality thresholds set for them, the Commission can consider imposing control on their electricity services. If the Commission makes a declaration of control it can then set rules—termed an "authorisation"—governing the prices, revenue and/or quality of those controlled services for up to five years. While the company may face penalties if it does not comply with those rules, the operation of the company will continue to be undertaken by its management and Board of Directors as normal. Control is not intended to compensate consumers for any past overcharging but to put in place constraints on the controlled business's future performance.

Administrative settlement. As an alternative to control being imposed, a company may reach an administrative settlement with the Commission. This usually involves the Commission and the company agreeing to pricing levels and quality measures for a period of up to five years. The result is that prices and quality are maintained at levels the Commission considers appropriate for the long term interests of consumers, without the need to impose control, which can be intrusive and costly.



Print this page

1 of 2 pages