

# ALPINE ENERGY LIMITED

## THRESHOLD COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE, 31 MARCH 2007

*Pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004  
and the Amendment Notice 2006*

23 May 2007

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**1. Disclosure of Information Required (Clause 7(1)(a)(i) – The Price Path Threshold)**

Alpine Energy Limited does comply with all requirements of the price path threshold at the assessment date, 31 March 2007, as specified in the Commerce Act (Electricity Distribution Thresholds) Notice 2004, and the Amendment Notice 2006.

**Clause 5 (1) (a)** The Notional Revenue of a distribution business at each assessment date (calculated in accordance with the numerator of the left-hand side of the following expression) is not to exceed the allowable Notional Revenue of the distribution business under the CPI-X price path at that assessment date (calculated in accordance with the denominator of the left-hand side of the following expression):

<b>Test:</b>	$\frac{NR_{2007}}{R_{2007}}$	$\leq 1$
<b>Result:</b>	\$18,953,135 / \$19,334,398	< 1
<b>Result:</b>	0.9803	< 1
<b>Result:</b>	Threshold is not breached	

**Clause 5 (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 under this clause (or, if the previous assessment date is the reference date, under clause 5 of the initial Notice).

<b>Test:</b>	$\frac{NR_{Max}}{Max(R_{2006}, R_{2007})}$	$\leq 1$
<b>Result:</b>	\$18,953,135 / \$19,334,398	< 1
<b>Result:</b>	0.9803	< 1
<b>Result:</b>	Threshold is not breached	

Supporting evidence is presented in Appendices A, B and C.

Alpine Energy increased prices for three large connections on 1 April 2006 (with distribution charges backdated to 1 February 2006), 1 August 2006, and 1 October 2006, respectively. For the majority of customers there was no price increase between 1 April 2006 and 31 March 2007.

**Notional Revenue:**

In accordance with the Gazette Notice, the following sources of revenue have been included in the calculation of Notional Revenue:

- Fixed and variable line function services

**Excluded Services:**

In accordance with the Gazette Notice the following sources of revenue have been excluded from the calculation of Notional Revenue:

- Non-conveyance revenues including:
  - Metering
  - Interest
  - Rent
  - Profit on sale of assets
- The value of assets vested in Alpine Energy Limited on behalf of customers.

**Pass Through Costs:**

In accordance with the Gazette Notice, the following components of transmission charges have been included in pass through costs:

- Connection charges
- Interconnection charges
- New investment charges
- Loss Rental Rebates
- EVA credits
- Interim rebate

Local body rates applying to system fixed assets: lines, cables, equipment, substation land and substation buildings, and Electricity Commission levies have also been passed through in accordance with the Gazette Notice.

**2. Disclosure of Information Required (Clause 7(1)(a)(ii) – The Quality Threshold)**

Alpine Energy Limited does not comply with all requirements of the quality threshold at the assessment date, 31 March 2007, as specified in the Commerce Act (Electricity Lines Thresholds) Notice 2004, and the Amendment Notice 2006.

Clause 6 (1) (a) Interruption Duration

<b>Test:</b>	$SAIDI_{2007} \leq \left( \frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$		
<b>Result:</b>	1,113.93	>	88.20
<b>Result:</b>	SAIDI breaches the threshold by 1025.73 minutes		

Supporting evidence is presented in Appendix D.

Clause 6 (1) (b) Interruption Frequency

<b>Test:</b>	$SAIFI_{2007} \leq \left( \frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$		
<b>Result:</b>	1.87	>	1.10
<b>Result:</b>	SAIFI breaches the threshold by 0.77 interruptions		

Supporting evidence is presented in Appendix D.

## **Explanation of Breach**

On Monday 12 June 2006 a snow event occurred which has been confirmed from meteorological records as being the largest snow fall in 60 years.

Approximately 10,000 consumers were affected by the snow damaging lines throughout the South Canterbury region covered by Alpine Energy Limited.

The recovery to restore supply in South Canterbury was completed within two weeks to all consumers and required an additional 100 line mechanics and plant to be mobilised from around the South Island and parts of the North Island.

Because the focus of company staff was on restoring power supply, accurate switching records and restoration times are not available for the duration of the event.

The estimated direct impact of this event was 914.22 SAIDI minutes of interruption, which is well in excess of Alpine's annual average of 88.20 minutes. A further 49.10 SAIDI minutes of interruption resulted from planned interruptions to allow permanent repairs to the network to be done. In addition, 5.50 SAIDI minutes of interruption were directly attributable to damage caused by the snow storm, and a significant portion of another 94.22 SAIDI minutes of interruption was a consequence of damage caused by the snow storm.

We believe that the majority of damage occurred to lines constructed 30-40 years ago while our newer lines withstood the snow loading and remained available for service due to their more modern materials and construction standards.

Another factor was snow falling to sea level, where lines are not designed to support heavy snow loading, and therefore were compromised.

Alpine Energy has reviewed the event to gain insight and understanding into the relevant failure modes of the affected network equipment to feedback into our design process.

We also looked at our operational response to ensure our emergency preparedness plans are updated from the recent experience gained in addressing such a wide scale event.

Alpine Energy will complete a report on the impact of the snow event and make this available to interested parties once complete.

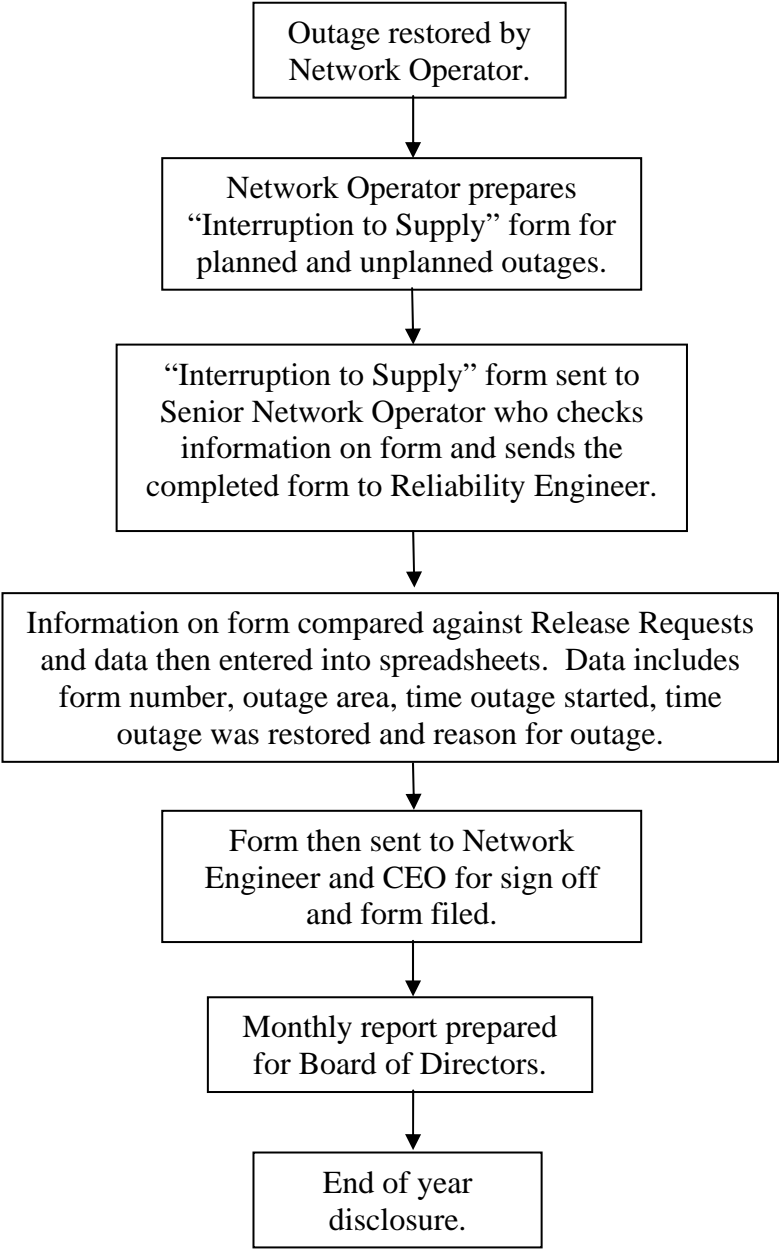
### Clause 6 (1) (c) Customer Communication

Alpine Energy completed a compliance statement on customer communications as at 31 March 2006. It is intended to complete the next compliance statement as at 31 March 2008.

**3. Disclosure of Information Required (Clause 7(1)(a)(iii) – SAIDI and SAIFI policies and procedures)**

The following are the Policies and Procedures which Alpine Energy use for recording SAIDI and SAIFI statistics:

- All planned and unplanned outages 3.3kV and above are recorded.
- Outages less than 1 minute duration are still reported but do not affect SAIDI and SAIFI figures.
- Outages are recorded on an “Interruption to Supply” form by the Network Operator.
- The ICP data base is interrogated for customer numbers in the outage area.
- Monthly reports prepared for Board of Directors.



**REPORT OF THE AUDITOR-GENERAL**

To the readers of the threshold compliance statement of Alpine Energy Limited for the assessment period ended on 31 March 2007

We have audited the attached statement, prepared by Alpine Energy Limited for assessment as at 31 March 2007 and dated 23 May 2007. The attached statement is a threshold compliance statement in respect of the price path threshold and the quality threshold, for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 ("the Notice"). In this report the attached statement is called "the threshold compliance statement".

**Directors' Responsibilities**

Directors of Alpine Energy Limited are responsible for the certification, confirming the compliance or otherwise, of the threshold compliance statement in accordance with the Notice.

**Auditor's Responsibilities**

Section 15 of the Public Audit Act 2001 and clause 7(1)(b) of the Notice require the Auditor-General to audit the threshold compliance statement. It is the responsibility of the Auditor-General to express an independent opinion on the threshold compliance statement and report the opinion to you.

The Auditor-General has appointed Maurice Noone of PricewaterhouseCoopers to undertake the audit.

**Basis of Opinion - Price Path Threshold; Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2007**

We conducted the audit in accordance with the Auditor-General's Auditing Standards which include the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand.

The audit included examining, on a test basis, evidence relevant to the amounts and disclosures contained on pages 2 to 7 and Appendices A to D of the threshold compliance statement and which relate to:

- the price path threshold set out in clause 5 of the Notice; and
- the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice.

It also included an assessment of the significant estimates and judgements, if any, made by Alpine Energy Limited in the preparation of the threshold compliance statement and an assessment of whether the basis of preparation has been adequately disclosed.

We planned and performed the audit of the threshold compliance statement so as to obtain all the information and explanation which we considered necessary, including for the purpose of obtaining sufficient evidence to give reasonable assurance that the threshold compliance statement is free from material misstatements (whether caused by fraud or error), except that our work was limited in respect of the quality threshold: SAIDI and SAIFI statistics as explained below. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the threshold compliance statement.

**REPORT OF THE AUDITOR-GENERAL**

Alpine Energy Limited

**Basis of Opinion - Quality Threshold: SAIDI and SAIFI Statistics for the Years Ended 31 March 1999, 2000, 2001, 2002 and 2003.**

In relation to the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice. We have undertaken procedures to provide reasonable assurance that:

- the amounts and disclosures in the threshold compliance statement relating to those statistics have been correctly taken from the information disclosed by Alpine Energy Limited in accordance with the Electricity (Information Disclosure) Regulations 1999; and
- those statistics have been calculated based on the source data provided to us. We have not performed audit procedures on the source data.

**Relationship and Interests**

In addition to the audit of the threshold compliance statement we have carried out other audit assignments for Alpine Energy Limited. This involved issuing an audit opinion on the annual financial statements for the year ended 31 March 2007 as well as audit certificates pursuant to the Electricity Information Disclosure Requirements 2004. We have also carried out other professional advisory services. Other than these assignments we have no relationship with or interests in Alpine Energy Limited.

**Opinions**

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

**Price Path Threshold**

In our opinion, having made all reasonable enquiry, to the best of our knowledge the amounts or details set out in the threshold compliance statement relating to the price path threshold set out in clause 5 of the Notice and related information have been prepared in accordance with the Notice, and give a true and fair view of the performance of Alpine Energy Limited against that threshold for the assessment period ended on 31 March 2007.

**Quality Threshold: SAIDI and SAIFI statistics**

In our opinion, having made all reasonable enquiry, to the best of our knowledge:

- a) The SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007 which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice and related information have been calculated or prepared in accordance with Alpine Energy Limited's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement; and
- b) The SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003, which are relevant to those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice, have been correctly taken from the information disclosed by Alpine Energy Limited in accordance with the Electricity (Information Disclosure) Regulations 1999. Those statistics have been properly calculated based on the unaudited source data provided to us by Alpine Energy Limited.

**REPORT OF THE AUDITOR-GENERAL**  
Alpine Energy Limited

**Qualified Opinion**

Our opinion is qualified as follows:

**Quality Threshold: SAIDI and SAIFI statistics**

The scope of our audit was subject to the following limitations:

- There is no independent evidence available for the period to support the completeness and accuracy of recorded faults;
- Control over the completeness and accuracy of ICP data included in the SAIDI and SAIFI calculations is limited throughout the period; and
- As described on page 6 of the threshold compliance statement, on 12 June 2006 a severe snow storm caused extensive outages throughout the network. Accurate switching records and restoration times were not maintained for the duration of this event. The company has estimated the snowstorm resulted in an additional 1063 SAIDI minutes. However, insufficient detailed records exist to verify this estimate.

Because of these limitations, there are no practical audit procedures that we could adopt to confirm independently that all outage and ICP data was properly recorded for the purposes of inclusion in the amounts or details set out in the quality threshold: SAIDI and SAIFI statistics.

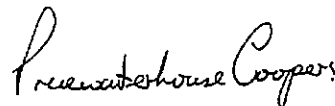
In these respects alone we have not obtained all the information and explanations that we have required.

Because of the potential effect of the limitations in the evidence available to us, we are unable to form an opinion as to whether the amounts or details set out in the quality threshold: SAIDI and SAIFI statistics for the assessment period ended on 31 March 2007, together with the SAIDI and SAIFI statistics for the years ended 31 March 1999, 2000, 2001, 2002 and 2003, give a true and fair view of the performance of Alpine Energy Limited against those parts of the quality threshold that are set out in clauses 6(1)(a) and 6(1)(b) of the Notice for the assessment period ended on 31 March 2007.

Our audit was completed on 23 May 2007 and our qualified and unqualified opinions are expressed as at that date.



Maurice Noone  
On behalf of the Auditor-General  
Christchurch, New Zealand  
23 May 2007



PricewaterhouseCoopers

## 5. Certification of Threshold Compliance Statement

We, Ian James Bowan and Donald Murray Douglas Cleverley, being directors of Alpine Energy Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached threshold compliance statement of Alpine Energy Limited, and related information, prepared for the purposes of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 complies with the requirements of that notice:

Clause 5(1)(a) – Threshold not breached

Clause 5(1)(b) – Threshold not breached

Clause 6(1)(a) – Threshold breached

Clause 6(1)(b) – Threshold breached



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I J Bowan  
Director



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D M D Cleverley  
Director

23 May 2007

## Appendix A

### Clause 5 (1) (a)

$NR_{2007}$

Notional Revenue for the year ending 31 March 2007		
Term	Description	(\$)
$\sum P_{i,2007} Q_i$	Prices at 31 March 2007 multiplied by 31 March 2003 Base Quantities	26,948,610
$K_{2007}$	Transmission Charges for year ending 31 March 2007	7,867,958
	Rates for year ending 31 March 2007	60,671
	Electricity Commission Levies for year ending 31 March 2007	66,846
$NR_{2007} = \sum P_{i,2007} Q_i - K_{2007}$	Notional Revenue for the year ending 31 March 2007	18,953,135

$R_{2004}$

Maximum Notional Revenue at the reference date which would not have caused the distribution business to breach the price path under the Initial Notice		
Term	Description	(\$)
$\sum P_{i,0} \times Q_{i,0}$	Prices at 6 September 2003 multiplied by 31 March 2003 Base Quantities	25,159,571
$C_{T2003}$	Budget Transmission Charges for year ending 31 March 2004	7,507,000
$C_{R2003}$	Budget Rates for year ending 31 March 2004	60,000
$R_{2004}$	Maximum Revenue at 31 March 2004 that would not have caused a breach under the Initial Notice	17,592,571

Note: All notation in the table above except  $R_{2004}$  comes from the Initial Notice.

**Test for 5 (1) (a) - ( $NR_{2007} / R_{2007} \leq 1$ )**

Allowable Notional Revenue under CPI -X price path		
Term	Description	(\$)
$X$	X Factor	1%
$R_{2004}$	Maximum Revenue at 31 March 2004 that would not have caused a breach under the Initial Notice	17,592,571
$(1 + \Delta CPI_{2005})$	Average change in Consumer Price Index over 2004	1.0229
$(1-X)$	1-X Factor	0.99
$R_{2005(1)}$	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2005	17,815,530
$R_C$	Revenue from new assets for existing customer	706,636
$R_{2005}$	Total Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2005	18,522,166
$(1 + \Delta CPI_{2006})$	Average change in Consumer Price Index over 2005	1.0304
$(1-X)$	1-X Factor	0.99
$R_{2006}$	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2006	18,893,841
$(1 + \Delta CPI_{2007})$	Average change in Consumer Price Index over 2006	1.0337
$(1-X)$	1-X Factor	0.99
$R_{2007}$	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2007	19,334,398
$NR_{2007} / R_{2007}$	Expression must be less than or equal to 1 to avoid breaching 5(1)(a)	0.9803
$R_{2007} - NR_{2007}$	Value of Compliance or (Breach)	381,263

For presentation purposes, the CPI Index has been presented to four decimal places, however, for the calculation of  $R_{2007}$ , the full index (with no rounding) has been applied.

$\Delta CPI_{2005}$			
Numerator		Denominator	
<i>CPI</i> <i>Q1,2004</i>	928	<i>CPI</i> <i>Q1,2003</i>	913
<i>CPI</i> <i>Q2,2004</i>	935	<i>CPI</i> <i>Q2,2003</i>	913
<i>CPI</i> <i>Q3,2004</i>	941	<i>CPI</i> <i>Q3,2003</i>	918
<i>CPI</i> <i>Q4,2004</i>	949	<i>CPI</i> <i>Q4,2003</i>	924
Total	3753	Total	3669
$\Delta CPI_{2005}$		2.29%	

Source: Statistics New Zealand All Groups SE9A Index (Note this index was rebased to June 2006 -Consumers Price Index Review information paper published on 28 September 2006. The 2006 September quarter CPI was the first index published using the new base)

$\Delta CPI_{2006}$			
Numerator		Denominator	
<i>CPI</i> <i>Q1,2005</i>	953	<i>CPI</i> <i>Q1,2004</i>	928
<i>CPI</i> <i>Q2,2005</i>	962	<i>CPI</i> <i>Q2,2004</i>	935
<i>CPI</i> <i>Q3,2005</i>	973	<i>CPI</i> <i>Q3,2004</i>	941
<i>CPI</i> <i>Q4,2005</i>	979	<i>CPI</i> <i>Q4,2004</i>	949
Total	3867	Total	3753
$\Delta CPI_{2006}$		3.04%	

Source: Statistics New Zealand All Groups SE9A Index (Note this index was rebased to June 2006 -Consumers Price Index Review information paper published on 28 September 2006. The 2006 September quarter CPI was the first index published using the new base)

$\Delta CPI_{2007}$			
Numerator		Denominator	
<i>CPI</i> <i>Q1,2006</i>	985	<i>CPI</i> <i>Q1,2005</i>	953
<i>CPI</i> <i>Q2,2006</i>	1000	<i>CPI</i> <i>Q2,2005</i>	962
<i>CPI</i> <i>Q3,2006</i>	1007	<i>CPI</i> <i>Q3,2005</i>	973
<i>CPI</i> <i>Q4,2006</i>	1005	<i>CPI</i> <i>Q4,2005</i>	979
Total	3997	Total	3867
$\Delta CPI_{2007}$		3.37%	

Source: Statistics New Zealand All Groups SE9A Index (Note this index was rebased to June 2006 -Consumers Price Index Review information paper published on 28 September 2006. The 2006 September quarter CPI was the first index published using the new base)

## Appendix B

### Clause 5 (1) (b)

$NR_{Max}$

Maximum Notional Revenue for the period 1 April 2006 to 31 March 2007. P x Q using 31 March 2007 Prices and 31 March 2003 Base Quantities if there has been no change in prices over this period, otherwise the prices which generate the maximum notional revenue over the period when using 31 March 2003 quantities		
Term	Description	(\$)
$\Sigma P_{Max} Q_i$	Maximum Price Between 1 April 2006 and 31 March 2007 multiplied by 31 March 2003 Base Quantities	26,948,610
$K_{2007}$	Transmission Charges for year ending 31 March 2007	7,867,958
	Rates Charges for year ending 31 March 2007	60,671
	Electricity Commission Levies for year ending 31 March 2007	66,846
$NR_{Max}$	Maximum Notional Revenue for 1 April 2006 to 31 March 2007	18,953,135

**Test for 5 (1) (b) -  $(NR_{Max} / \text{Max}(R_{2006}, R_{2007})) \leq 1$**

Notional Revenue during the period is not to exceed the maximum of the Allowable Notional Revenue at the end of the assessment period and the Allowable Notional Revenue at the end of the previous assessment period		
Term	Description	(\$)
$NR_{Max}$	Maximum Notional Revenue for 1 April 2006 to 31 March 2007	18,953,135
$R_{2006}$	Allowable Notional Revenue at 31 March 2006	18,893,841
$R_{2007}$	Allowable Notional Revenue at 31 March 2007	19,334,398
$\text{Max}(R_{2006}, R_{2007})$	Maximum of the Allowable Notional Revenue at 31 March 2006 and the Allowable Notional Revenue at 31 March 2007	19,334,398
$NR_{Max} / \text{Max}(R_{2006}, R_{2007})$	If expression is greater than 1, Clause 5 (1) (b) is breached	0.9803
$\text{Max}(R_{2006}, R_{2007}) - NR_{Max}$	Value of Compliance or (Breach)	381,263



## Appendix D

Year	SAIDI (Interruption Duration)			SAIFI (Interruption Frequency)		
	Class B	Class C	Total	Class B	Class C	Total
1999	10	57	67.00	0.1	1.2	1.30
2000	15	32	47.00	0.1	0.7	0.80
2001	8	68	76.00	0.1	1.3	1.40
2002	19	50	69.00	0.2	0.8	1.00
2003	20	162	182.00	0.1	0.9	1.00
	<b>Five Year Average SAIDI</b>		<b>88.20</b>	<b>Five Year Average SAIFI</b>		<b>1.10</b>
2007	69.98	1,043.95	1,113.93	0.28	1.59	1.87