



Report to the Auckland Energy Consumer Trust
Overhead Improvement Programme
Financial Year 2006/07

September 2007

1 Introduction

Under the terms of the New Deed Recording Essential Operating Requirements, Clause 4.3 requires the Company to provide a written report to the Trust on the operation of the Overhead Improvement Programme. This report sets out in detail the operation of the undergrounding programme in compliance with the terms of the deed.

2 The Overhead Improvement Programme

The Overhead Improvement Programme commenced in 2001. The Minimum Undergrounding Investment was set at \$10M - with this to be increased by a PPI adjustment in subsequent years. After considering the adjustment, there was no increase applied until the 2005/06 year. The new Deed Recording Essential Operating Requirements reset the base Minimum Undergrounding Investment to \$10.5M in 2005.

As a result the Minimum Undergrounding Investment amounts for each year are:

Year ending March	2002	\$5.0M	(part year)
Year ending June	2003	\$12.5M	(15 month period)
Year ending June	2004	\$10.0M	
Year ending June	2005	\$10.0M	
Year ending June	2006	\$10.5M	
Year ending June	2007	\$10.9M	
Year ending June	2008	\$11.3M	(Budgeted)

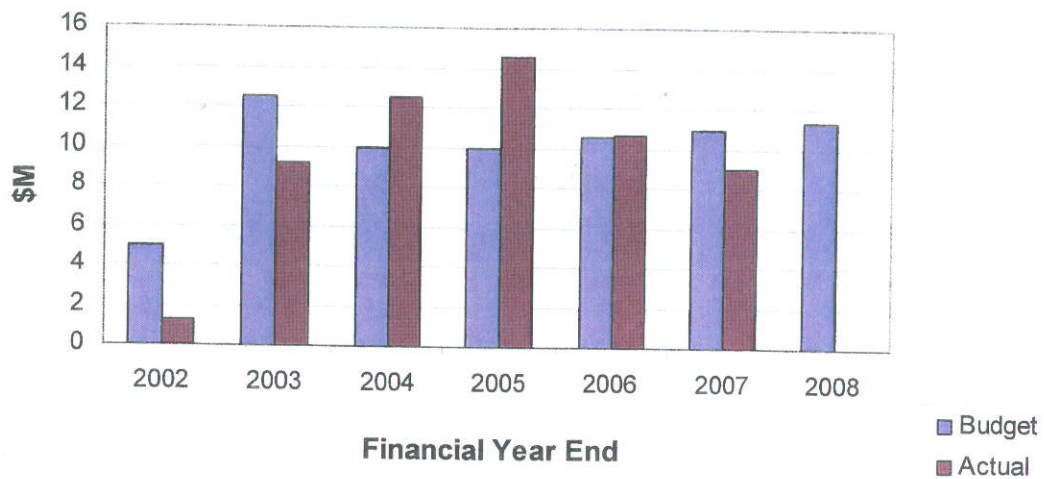
3 Expenditure of the Undergrounding Investment

The actual expenditure in undergrounding throughout each year of this programme is summarised in the table below:

	Minimum Undergrounding Investment	Actual Expenditure	Difference	Cumulative Notional Balance
2001/02	\$5M	\$1.239M	(\$3.761M)	(\$3.761M)
2002/03	\$12.5M	\$9.201M	(\$3.299M)	(\$7.060M)
2003/04	\$10M	\$12.509M	\$2.509M	(\$4.551M)
2004/05	\$10M	\$14.551M	\$4.551M	\$0M
2005/06	\$10.5M	\$10.517M	\$0.017M	\$0.017M
2006/07	\$10.9M	\$8.937	(\$1.963M)	(\$1.946M)

The amount of expenditure on undergrounding for the year 2006/07 was \$8.937M. With this, the actual expenditure over the past six years is \$56.955M, which is \$1.946M below the minimum required for the six year period.

OIP Expenditure



The shortfall in undergrounding investment was primarily due to delivering the Howick project well under budget (under budget by \$820k) and delays in commencing the Orakei project in sufficient time to make up the difference.

4 Achievements of the Overhead Improvement Programme

Through implementing this programme, priority has been given to developing large scale projects where whole suburbs can be undergrounded at a time. Significant efficiencies are gained through the scale provided by this approach. To date five such large scale projects have been completed. These have been in Papatoetoe, Rosebank, Glen Innes, Weymouth and Howick. Such projects have been structured with Vector, the relevant Council, Telecom, and other utilities partnering together to achieve a total revitalisation of the area while the undergrounding is implemented. Through this Vector led "dig once" concept additional investment is attracted by others so that the suburbs not only benefit from the undergrounding of the power lines, but also the undergrounding of telephone lines, installation of new streetlighting, new footpaths, gas and water infrastructure reinforcements, and new berms etc. Approximately 80% of the total expenditure has been dedicated to the large scale projects.

The remaining expenditure has been used in developing a number of relatively small scale projects where and when good opportunities have arisen. Such opportunities have included capturing synergies with Council footpath replacement programmes, local town centre precinct upgrades, road realignments, and with other Vector initiated projects – such as underground feeder cable reinforcements and pole replacements (where possible).

5 Projects Constructed During The 2006/07 Year.

The programme this past financial year was dominated by the large scale undergrounding project in Howick. It was completed in April 2007. This was the fifth large scale project completed under the current programme. There were also four smaller projects completed during the year. These were; Motions Road (Western Springs) Padget Street (Ponsonby) Talbot Park (Glen Innes) and The Bullock Track (Western Springs)

6 Summary

Expenditure for the Overhead Improvement Programme during 2006/07 was less than we targeted for the year, however the Minimum Undergrounding Investment has been satisfied. The average expenditure for 2006/07 and the four preceding years has been \$11.1M – exceeding the Minimum Undergrounding Investment of \$10.9M.

The Minimum Undergrounding Investment for the 2007/08 year is \$11.3M, after application of the PPI index. The company has budgeted \$11.3M for the 2007/08 year. We will need to spend a minimum of \$9.986M in order to maintain compliance with the New Deed Recording Essential Operating Requirements based on the five yearly average.



Simon Mackenzie

Chief Executive Officer (acting)