



Report to the Auckland Energy Consumer Trust

Overhead Improvement Programme

Financial Year 2007/08

September 2008

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	\$11.2M*	
Year ending June	2009	\$12.2M	(Budgeted)

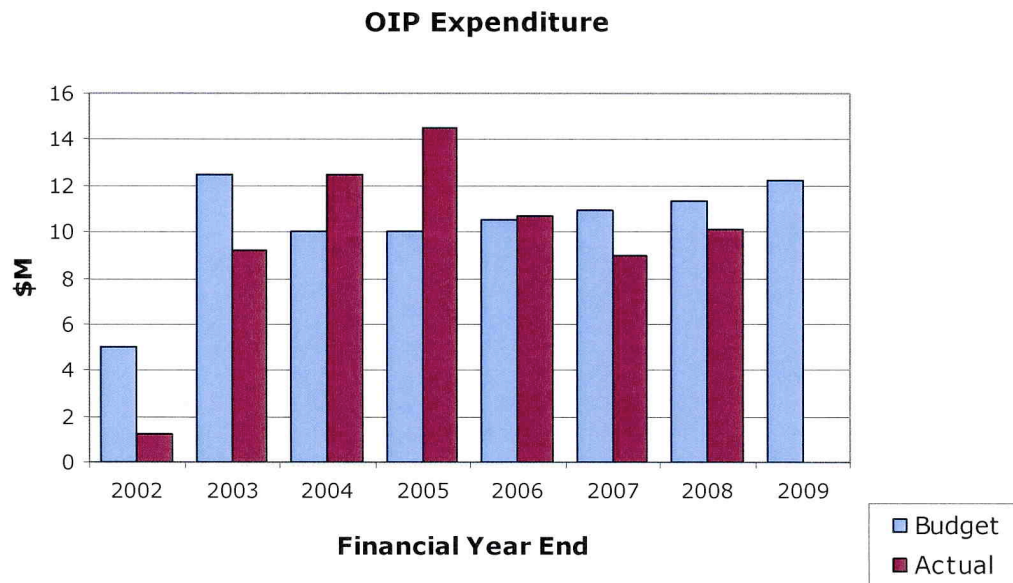
(* The Minimum Undergrounding Investment amount for the 2006/07 year has been corrected from \$11.26M down to \$11.24M to reflect subsequent revision by NZ Statistics of the PPI)

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
2001/02	\$5M	\$1.239M	(\$3.761M)
2002/03	\$12.5M	\$9.201M	(\$3.299M)
2003/04	\$10M	\$12.509M	\$2.509M
2004/05	\$10M	\$14.551M	\$4.551M
2005/06	\$10.5M	\$10.517M	\$0.017M
2006/07	\$10.9M	\$8.937M	(\$1.963M)
2007/08	\$11.2M	\$10.084M	(\$1.156M)

The amount of investment on undergrounding for the year 2007/08 was \$10.084M. With this, the actual expenditure over the past five years is \$56.598M



The shortfall in undergrounding investment against our budget last year was primarily due to delivering the Orakei project well under budget (under budget by \$945k) and delays in commencing the Sandringham project in sufficient time to make up the difference.

4 Achievements of the Overhead Improvement Programme

Through implementing this programme, we have continued to give priority 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 six such large scale projects have been completed. These have been in Papatoetoe, Rosebank, Glen Innes, Weymouth, Howick and Orakei. 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 2007/08 Year

The programme this past financial year was dominated by the large scale undergrounding project in Orakei. It was completed in April 2008. This was the sixth large scale project completed under the current programme. There were also a number of smaller projects completed during the year. These were; Ash Street (Avondale), Rangitoto Ave (Remuera), Carrington Road (Mt Albert), Cleveland Road (Parnell), Jervois Road (Herne Bay), West End Road (Herne Bay), and Hamilton Road (Herne Bay).

Construction work on our seventh large scale project, the Sandringham project, commenced in May and will continue through to mid 2009. Part of the expenditure on this project contributed towards the undergrounding investment for the 2007/08 year.

6 Summary

Expenditure for the Overhead Improvement Programme during 2007/08 was less than we targeted for the year, however the Minimum Undergrounding Investment has been satisfied. The average expenditure for 2007/08 and the four preceding years has been \$11.32M – exceeding the Minimum Undergrounding Investment of \$11.24M.

The Minimum Undergrounding Investment for the 2008/09 year is \$12.2M, after application of the PPI index. We will need to spend a minimum of \$12.2M in the current year in order to maintain compliance with the New Deed Recording Essential Operating Requirements based on the five yearly average.

Simon Mackenzie

Chief Executive Officer