

HORIZON ENERGY DISTRIBUTION LIMITED

DEFAULT PRICE QUALITY PATH COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE 31 MARCH 2012

*Pursuant to the Commerce Act (Electricity Distribution Default Price-
Quality Path) Determination 2010*

29 May 2012

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1) Compliance with the Price Path (Clause 11.1(a))

Horizon Energy Distribution Limited (~~Horizon Energy~~) does not comply with the price path at the assessment date, 31 March 2012, as specified in the *Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010*.

Clause 8.4 - The notional revenue (NR_t) of a Non-exempt EDB at any time during the Assessment Period must not exceed the allowable notional revenue (R_t) for the Assessment Period.

Compliance is demonstrated in the following tables. The first table demonstrates that notional revenue derived using posted prices at the end of the Assessment Period is greater than allowable notional revenue. The second table demonstrates that the maximum notional revenue during the Assessment Period also exceeds allowable notional revenue.

Test:	$\frac{NR_{2012}}{R_{2012}} \leq 1$
NR_{2012} :	\$ 21,056,173
R_{2012} :	\$ 20,410,487
Result:	1.0316 > 1
Result:	<i>Price Path has been breached</i>

Test:	$\frac{NR_{Max}}{R_{2012}} \leq 1$
NR_{Max} :	\$ 21,056,173
R_{2012} :	\$ 20,410,487
Result:	1.0316 > 1
Result:	<i>Price Path has been breached</i>

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

Explanation of Unintentional Price Path Breach 2011/12

Executive Summary

Horizon Energy has inadvertently breached its price path for the year ended 31 March 2012 by \$645,686 which equates to 3% of total allowable notional revenue. The reasons for the breach are as follows.

- Timing and forecasting of avoided transmission costs
- Forecasting of local authority rates and regulatory levies
- Estimating 2010 quantities for each 2011/12 price during the 2011/12 pricing review
- Setting mass market tariffs prior to finalisation of major customer charges
- Forecasting 2012 allowable notional revenue.

The impact of each of these can be summarised as follows:

Default Price Path Revenue Calculation Summary	Estimates at December 2010	2012 DPP Compliance Statement	Variance
2012 Allowable Notional Revenue Calculation			
P 2011*Q 2010	27,827,391	27,684,356	(143,035)
K 2011			
Transmission Charges for year ending 31/03/2011	7,429,996	7,884,233	454,237
Rates for year ending 31/03/2011	119,400	118,232	(1,168)
EC levies for year ending 31/03/2011	63,834	52,303	(11,531)
CC levies for year ending 31/03/2011	76,674	49,639	(27,035)
K 2011 Estimate	7,689,905	8,104,407	414,502
Headroom from 2011 (ie. R 2011 - NR 2011)	(64,953)	473,354	538,307
R 2012 Allowable notional revenue pre CPI	20,072,533	20,053,303	(19,230)
Plus CPI 2012	1.78%	1.78%	1.78%
Plus X factor	0	0	0
R 2012 Allowable notional revenue post CPI	20,430,059	20,410,487	(19,572) e.
2012 Notional Revenue Calculation			
Mass market (P2012 * Q2010)	24,839,350	24,849,216	9,865 c.
Major customers (P2012 * Q2010)	4,102,358	4,291,243	188,885 d.
P 2012*Q 2010	28,941,708	29,140,458	198,750
K 2012 Forecast			
Transmission Charges for year ending 31/03/2012	8,070,720	7,846,598	(224,122) a.
Rates for year ending 31/03/2012	126,924	115,690	(11,234) b.
EC levies for year ending 31/03/2012	62,244	74,588	12,344 b.
CC levies for year ending 31/03/2012	92,009	47,410	(44,600) b.
K 2012 Forecast	8,351,897	8,084,285	(267,612)
NR 2012 Notional revenue	20,589,811	21,056,173	466,362
Test			
Notional revenue/Allowable notional revenue (Must be <1)	1.0078	1.0316	
Headroom/(Breach)	(159,752)	(645,686)	

During 2011/12 Horizon Energy revised its avoided transmission cost allowances and estimated a preliminary DPP breach of \$472,390. This has been incorporated, as a deduction to the revenue requirement, for the purpose of the 2012/13 pricing. The difference of \$173,296, which was not able to be identified until the finalisation of avoided transmission costs in April 2012, is to be carried forward and refunded to consumers as part of the 2013/14 pricing.

Background

Horizon Energy undertakes an annual price setting process consistent with our disclosed pricing methodology. This involves reviewing the operating costs of providing distribution services to the different customer groups and then setting prices accordingly to strike an appropriate balance between maintaining historic relativities in pricing and sending the right signals to customers within the regulatory revenue constraints.

This typically must be undertaken in December and January of the preceding year as retail companies require pricing change notifications by 6 February (ie: at least 40 working days from the commencement of the new pricing period on 1 April of each year).

In 2010 Horizon Energy embarked on a complete review of our distribution pricing structure in order to:

- Establish a comprehensive cost of supply model to reflect the current costs of supplying each group of consumers; and
- To address the on-going decline in electricity consumption in the Eastern Bay of Plenty such that the business is able to fully recover its costs in order to meet the on-going investment needs of the business and the expectations of our shareholders.

In order to adopt where practical the pricing principles advocated by the Electricity Authority (EA) this project commenced mid-2010 with the objective of producing a restructured distribution tariff schedule. This involved:

- Developing and applying a new cost of supply model;
- Revising the underlying pricing methodology to better reflect the key principles advocated by the EA;
- Providing additional tariff options for domestic customers ineligible for the Low User Fixed Charge tariff;
- Consulting with interested stakeholders concerning proposed changes; and
- Meeting the notification requirements of electricity retailers being 60 working days prior to changes enacted (the longer notification period is required where tariffs are restructured).

The tariff restructure added complexity to estimating the DPP compliance position at the time the tariffs were determined because it was necessary to make a number of assumptions regarding the new tariff structure. The following key assumptions were made when setting the 2011/12 prices:

- The optimal tariff mix (being the Installation Control Points (ICPs) assigned to each tariff group) was determined on the basis of being the most price efficient i.e. each ICP being charged the lowest overall line charge. In addition the calculations were based on unaudited quantity data;
- The line charges for major (non-standard) customers were estimated prior to contract negotiations proceeding; and

- Avoided transmission charges for the ensuing year had not been finalised. Agreement with the generating company which is party to this contract was not obtained until 18 April 2011, after the new prices had come into effect.

PricewaterhouseCoopers assisted us in estimating the forecast compliance position at the time the mass market prices were determined in December 2010. Notwithstanding this we subsequently discovered an error in the compliance position assessment which, once corrected, highlighted a forecast breach of \$159,742 (0.8% of Allowable Notional Revenue). This is set out in the second column of the above table. The actual compliance position is set out in the third column. The final column illustrates the variances.

We set out further explanation for each of the key variances between the estimated and actual compliance position in the following paragraphs.

1.1 Avoided Transmission Charges . Over Recovery

When setting distribution prices for the forthcoming year Horizon Energy is exposed to higher forecasting risk than many Electricity Distribution Businesses (~~EDBs~~) with regard to transmission charges, as approximately 37% of Horizon Energy's transmission charges relate to six avoided transmission supply agreements with embedded generators.

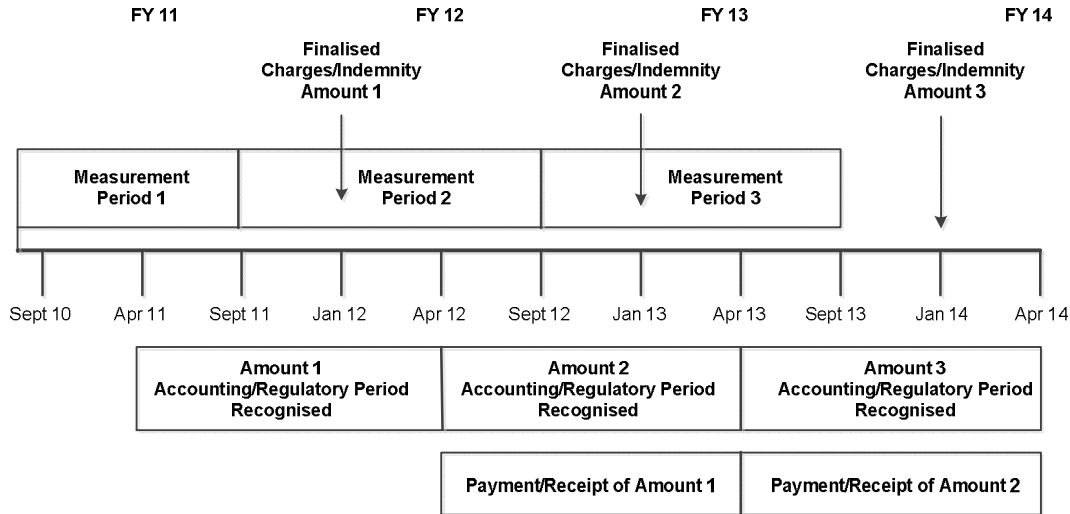
Under the New Zealand equivalents to International Reporting Standards (~~NZ IFRS~~) Horizon Energy is required to expense the costs associated with agreements that:

- a) Relate to avoided transmission supply which has occurred within the current reporting period; and
- b) Horizon Energy has contractual provisions securing the obligation on the third party; and
- c) The value of the benefit can be calculated reliably.

Three of the six generation contracts meet these criteria within the year that the generation benefit can be reliably determined. As all of these agreements are linked back to the Transpower Pricing Methodology (~~TPM~~) the value of the avoided transmission charge/indemnity rebates can only be determined upon the release of the Transpower pricing information.

The timetable to determine the avoided transmission charges are as follows:

Avoided Transmission/CSA Indemnity Determination



Following the release of the Transpower pricing information, usually in November, the charges owing for these three contracts can be calculated. The final amounts are usually determined in January of the following year after an agreement is reached with the generator. Any excess avoided transmission charges recovered by Horizon Energy are deducted from next years allowable notional revenue. There is a clear timing disconnect between the requirements of NZ IFRS and the TPM which adds to the increased forecasting risks of the business.

In setting the distribution prices for 2011/12 Horizon Energy forecast total avoided transmission charges of \$3,143,250, and incurred costs of \$2,919,128. The difference of \$224,122, which is reconciled below, has contributed to the breach position.

Actual Avoided Transmission Costs vs. Pricing Assumption				
Avoided Transmission Component	Recognition Basis	2012 (DPP)	Price Setting	Difference
BOPE CSA Aniwhenua	Prior Financial Year	2,346,960	2,346,960	-
BOPE CSA TG1	TPM Current Year	139,439		
BOPE CSA TG2	TPM Current Year	322,857	346,872	115,423
BOPE CSA Co-Gen Edgecumbe	Prior Financial Year	161,560	161,560	-
BOPE Indemnity Rebates	Prior Financial Year	(138,953)	(138,954)	-
Trustpower XSIC Edgecumbe	TPM Current Year	(33,334)	426,812	(460,146)
Avoided Transmission HEIL	Prior Financial Year	120,600	-	120,600
		2,919,128	3,143,250	(224,122)

1.2 Other Pass-Through Cost Variances

Horizon Energy has over recovered the pass-through costs associated with local authority rates and regulatory levies by a total of \$43,490. Although not material the variance nevertheless contributes to the overall breach level. Further explanation regarding forecast pass through costs is provided in Appendix C.

1.3 Major Customer Charges

When setting the distribution pricing for 2011/12 Horizon Energy made structural changes by introducing additional domestic tariffs to provide greater charging options to reflect different consumer use patterns. Whilst undertaking the structural changes Horizon Energy had to predict the likely revenue impacts which included applying certain pricing assumptions. Part of these changes also required consultation with affected stakeholders well in advance of the usual pricing notifications. The result of this work has led to the retail (mass market) prices being established in advance of setting the major (non-standard) contract line charges. An over recovery of \$188,885 (0.9%) resulted from higher major customer line charges being invoiced.

1.4 Price at 1 April 2011 multiplied by quantities at 31 March 2010

Horizon Energy had provided for mass market prices at 1 April 2011 (P2012) multiplied by estimated quantities at 31 March 2010 (Q2010) of \$24,839,350 within the Cost of Supply model using quantities based on an assumed allocation of ICPs to new tariff groups, with associated kWh and kVA quantities. The 2012 compliance position is now calculated with the benefit of hindsight, on the basis of the actual allocation of ICPs to the new tariffs and has revealed a \$9,865 (0.05%) variance from that originally forecast.

1.5 Allowable Notional Revenue

At the time distribution tariffs for 2011/12 were set, the 2011/12 allowable notional revenue was estimated as being \$20,430,059. Subsequently, the 2010 quantities have been finalised and audited, and the pass through costs finalised. The 2012 allowable notional revenue is now calculated as \$20,410,486, a difference of \$19,572 (0.1%).

Subsequent Mitigation Actions

In January 2012 as part of setting the 2012/13 electricity distribution line charges, Horizon Energy identified the likelihood of breaching the 2012 price path by the then calculated value of \$472,390. This is lower than the final breach value as some avoided transmission charges for 2012/13 had not been finalised at that time. To remedy this position Horizon Energy reduced the 2013 notional allowable revenue for the 2012/13 line charges to pass back \$472,390 as reduced tariffs in 2012/13.

Horizon Energy proposes to carry forward the balance of the breach being \$173,297 to the 2013 price path calculation, and refund any forecast breach (if any) as reduced tariffs in the 2013/14 distribution line charges.

2) Compliance with the Quality Standards (Clause 11.1(a))

Horizon Energy does comply with all requirements of the quality standards at the assessment date, 31 March 2012, as specified in the *Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010*.

Clause 9.2 - A Non-exempt EDB's Assessed Values for an Assessment Period must not exceed its Reliability Limits for that Assessment Period.

Compliance is demonstrated in the following tables. The first table demonstrates compliance with the SAIDI Limit and the second table compliance with the SAIFI limit.

Test:	$\frac{SAIDI_{Assess\ 2012}}{SAIDI_{Limit}} \leq 1$	
SAIDI _{Assess 2012}	174.6412	
SAIDI _{Limit}	220.0583	
	0.7936	< 1
Clause 9.1(a) Result:	<i>Does not Exceed Limit</i>	

Test:	$\frac{SAIFI_{Assess\ 2012}}{SAIFI_{Limit}} \leq 1$	
SAIFI _{Assess 2012}	2.2389	
SAIFI _{Limit}	2.3962	
	0.9344	< 1
Clause 9.1(a) Result:	<i>Does not Exceed Limit</i>	

Supporting evidence is presented in Appendices D and E.

Prior Period Reliability Assessment (9.1(b))

Clause 9.1.(b) requires: compliance with annual reliability assessments for the two immediately preceding extant Assessment Periods

SAIDI _{Assess 2011}	177.4069	SAIFI _{Assess 2011}	2.39
SAIDI _{Limit}	220.0583	SAIFI _{Limit}	2.40
0.8062	< 1	0.9985	< 1
<i>Does not Exceed Limit</i>		<i>Does not Exceed Limit</i>	

Compliance Summary

Clause 9.1 (A) Non-exempt EDB must, in respect of each Assessment Period, either:

(a) comply with the annual reliability assessment specified in clause 9.2; or

(b) have complied with those annual reliability assessments for the two immediately preceding extant Assessment Periods

	SAIDI	SAIFI	Compliance
Compliance with 9.1(a)	Does not Exceed Limit	Does not Exceed Limit	✔ <i>Complies</i>
or			
Compliance with 9.1(b)	Does not Exceed Limit	Does not Exceed Limit	✔ <i>Complies</i>
Clause 9.1 Result:	✔	<i>Complies with Quality Standard</i>	

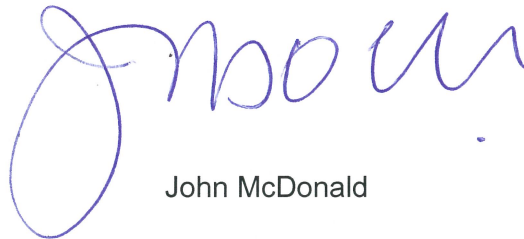
3) Director Certification (Clause 11.1(c))

Director Certification (Clause 11.1(c))

We, Robert Tait and John McDonald, being Directors of Horizon Energy Distribution Limited certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached Annual Compliance Statement of Horizon Energy Distribution Limited and related information, prepared for the purposes of the *Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010* are true and accurate.



Robert Tait



John McDonald

29 May 2012

4) Auditor's Report (Clause 11.2)



Independent Auditors' Report

To the Commissioners of the New Zealand Commerce Commission and the
Directors of Horizon Energy Distribution Limited

Assurance Report on the Annual Compliance Statement of Horizon Energy Distribution Limited for the Assessment Period ended on 31 March 2012

We have completed the assurance engagement in respect of the attached Annual Compliance Statement prepared by Horizon Energy Distribution Limited for the Assessment Period ended 31 March 2012 and dated 29 May 2012 for the purposes of clause 11 of the *Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010* ("the Determination").

Directors' Responsibilities

The Directors of Horizon Energy Distribution Limited are responsible for the preparation of the Annual Compliance Statement in accordance with the Determination and for such internal control as the Directors determine is necessary to enable the preparation of an Annual Compliance Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on the Annual Compliance Statement based on our independent assurance procedures. We conducted our engagement in accordance with ISAE (NZ) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information and SAE 3100 *Compliance Engagements*. Those standards require that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance about whether the Annual Compliance Statement complies with the Determination, in all material respects.

An independent assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the Annual Compliance Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Annual Compliance Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Annual Compliance Statement in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In relation to the price path set out in clause 8 of the Determination, our procedures included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 2 to 7 of the Annual Compliance Statement.



Independent Auditors' Report

Horizon Energy Distribution Limited

In relation to the SAIDI and SAIFI statistics for the Reference Period and the Assessment Period ended on 31 March 2012, including the calculation of the Reliability Limits and the Assessed Values, which are relevant to the quality standards set out in clause 9 of the Determination, our procedures included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 8 and 9 of the Annual Compliance Statement.

Our assurance engagement also included assessment of the significant estimates and judgments, if any, made by Horizon Energy Distribution Limited in the preparation of the Annual Compliance Statement and whether adequate information has been disclosed in accordance with clause 11.1(b) of the Determination.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have no relationship with or interests in Horizon Energy Distribution Limited other than in our capacities as auditors of the annual financial statements, auditors pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 and in the provision of other professional advisory services. These services have not impaired our independence as auditors of the entity.

Use of Report

This report has been prepared for the Directors of Horizon Energy Distribution Limited and the Commissioners of the New Zealand Commerce Commission in accordance with the Determination and is provided solely to assist these parties in establishing that compliance requirements have been met. Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the addressees, or for any purpose other than that for which it was prepared.

Inherent Limitations

Because of the inherent limitations in evidence gathering procedures and Horizon Energy Distribution Limited's compliance systems, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement were not performed continuously throughout the period and were undertaken on a test basis, our assurance engagement cannot be relied on to detect all instances where Horizon Energy Distribution Limited may not have complied with the Determination. The opinion expressed in this report has been formed on the above basis.

Opinion

In our opinion, the Annual Compliance Statement of Horizon Energy Distribution Limited for the Assessment Period ended on 31 March 2012, has been prepared, in all material respects, in accordance with the Determination.

Our audit was completed on 13 June 2012 and our opinion is expressed as at that date.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers
Auckland, New Zealand

Appendix A – Price Path Compliance Calculations (Clause 11.1(b)(i))

Clause 8.4

Notional Revenue for the year ending March 2012		
Term	Description	Value \$
$P_{2012} * Q_{2010}$	Prices at 31 March 2012 multiplied by 31 March 2010 Base Quantities	29,140,458
K_{2012}	Transmission Charges for year ending 31 March 2012	4,927,470
	Avoided Transmission Charges for year ending 31 March 2012	2,919,128
	Rates for year ending 31 March 2012	115,690
	Electricity Authority Levies for year ending 31 March 2012	74,588
	Commerce Act Levies for year ending 31 March 2012 + 1/5 of Commerce Act Levies for year ending 31 March 2010	47,410
NR_{2012}	Notional Revenue for the year ending 31 March 2012	21,056,173

Supported by P*Q schedules presented in Appendix B

Maximum Notional Revenue for the year ending March 2012		
Term	Description	Value \$
$P_{Max} * Q_{2010}$	Maximum Prices between 1 April 2011 and 31 March 2012 multiplied by 31 March 2010 Base Quantities	29,140,458
K_{2012}	Transmission Charges for year ending 31 March 2012	4,927,470
	Avoided Transmission Charges for year ending 31 March 2012	2,919,128
	Rates for year ending 31 March 2012	115,690
	Electricity Authority Levies for year ending 31 March 2012	74,588
	Commerce Act Levies for year ending 31 March 2012 + 1/5 of Commerce Act Levies for year ending 31 March 2010	47,410
NR_{Max}	Notional Revenue for the year ending 31 March 2012	21,056,173

Supported by P*Q schedules presented in Appendix B

Clause 8.5

Allowable Notional Revenue 2012		
Term	Description	Value \$
$P_{2011} * Q_{2010}$	Maximum Prices between 1 April 2010 and 31 March 2011 multiplied by 31 March 2010 Base Quantities	27,684,356
K_{2011}	Transmission Charges for year ending 31 March 2011	5,038,773
	Avoided Transmission Charges for 2011	2,845,460
	Rates for year ending 31 March 2011	118,232
	Electricity Commission Levies for year ending 31 March 2011	52,303
	Commerce Act Levies for year ending 31 March 2011 + 1/5 of Commerce Act Levies for year ending 31 March 2010	49,639
$R_{2011} - NR_{2011}$	Revenue Differential for year ending 31 March 2011	473,354
X	X Factor	0
$(1 + \Delta CPI_{2012})$	Average change in Consumer Price Index	1.0178
R_{2012}	Allowable Notional Revenue under the CPI-X Price Path for the year ending 31 March 2012	20,410,487

Supported by P*Q schedules presented in Appendix B

ΔCPI_{2012}			
Numerator		Denominator	
$CPI_{Dec2009}$	1093	$CPI_{Dec2008}$	1072
$CPI_{Mar2010}$	1097	$CPI_{Mar2009}$	1075
$CPI_{Jun2010}$	1099	$CPI_{Jun2009}$	1081
$CPI_{Sep2010}$	1111	$CPI_{Sep2009}$	1095
Total	4400	Total	4323
ΔCPI_{2012}	1.78%		

Revenue Differential 2011		
Term	Description	Value \$
R_{2011}	Allowable Notional Revenue under the CPI-X Price Path for the year ending 31 March 2011	19,739,583
NR_{2011}	Notional Revenue for the year ending 31 March 2011	19,266,229
$R_{2011} - NR_{2011}$	Allowable Notional Revenue less Notional Revenue for the year ending 31 March 2011	473,354

Appendix B – Price and Quantity Schedules (Clause 11.1(b)(i))

Horizon Energy P X Q SCHEDULE
Prices at 31 March 2012
Period: Annual
365 Days

BASE QUANTITIES 31 March 2010				2011/12 Tariffs				Regulatory Revenue (P X Q)				
Consumer Groups	ICPs	Ave Capacity/ MD per ICP	kWh	Line Charges		Pass Through		Line Charges		Pass Through		Total
				Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Revenue
				\$ per day	c/kWh	\$ per day	c/kWh	\$ per day	c/kWh	\$ per day	c/kWh	(\$)
RETAIL												
DOMESTIC												
LUDU	8,993		46,166,899	-	8.3780	0.1500	1.2060	-	3,867,863	492,367	556,773	4,917,002
LUDR	4,310		22,715,947	-	8.3780	0.1500	1.2060	-	1,903,067	235,973	273,943	2,412,983
SDU	2,898		28,406,334	0.2390	6.3470	0.5180	0.4640	252,807	1,802,950	547,925	131,805	2,735,487
SDR	2,410		25,902,036	0.2390	6.3470	0.5180	0.4640	210,236	1,644,002	455,659	120,185	2,430,083
NSDU	240		550,558	0.7790	6.7180	0.1920	-	68,240	36,986	16,819	-	122,046
NSDR	143		250,347	0.7790	6.7180	0.1920	-	40,660	16,818	10,021	-	67,500
TOTAL DOMESTIC	18,994		123,991,221					571,944	9,271,686	1,758,763	1,082,707	12,685,101
GENERAL												
Specials												
U/Verandah Lights	23			\$0.125/day		\$0.021/day		1,049	-	176	-	1,226
Electric Fence	23			\$0.291/day		\$0.042/day		2,443	-	353	-	2,796
Lanark	1			\$264.66/mth		(\$264.66)/mth		3,176	-	(3,176)	-	(0)
Street Lights	22		2,155,807	3.656 \$/light/mth		0.830 \$/light/mth		201,767	-	45,806	-	247,573
Telecom - PCM 24 hour	68			\$34.907/mth		\$7.762/mth		28,484	-	6,334	-	34,818
Telecom - controlled	18			\$13.490/mth		\$3.189/mth		2,914	-	689	-	3,603
Total Specials	155		2,155,807					239,834	-	50,182	-	290,015
Capacity Groups												
N1U	665		3,253,731	0.9360	6.0820	0.2500		227,191	197,892	60,681	-	485,764
N1R	1,094		3,138,728	0.8480	8.4400	0.2500		338,615	264,909	99,828	-	703,351
N2U	805		13,478,877	0.5920	5.0470	0.8590		173,944	680,279	252,396	-	1,106,619
N2R	1,927		24,099,066	1.1100	6.6000	0.8590		780,724	1,590,538	604,182	-	2,975,444
N3U	271		9,626,703	0.0950	5.0250	2.4540		9,397	483,742	242,737	-	735,876
N3R	294		12,958,866	0.1290	6.6200	2.4540		13,843	857,877	263,339	-	1,135,059
N4U	60		3,110,800	0.3440	5.1500	3.4530		7,534	160,206	75,621	-	243,361
N4R	43		2,555,359	0.0680	6.5200	3.4530		1,067	166,609	54,195	-	221,872
N5U	32	170 kVA	2,558,253	-	5.7400	2.700 c/kVA/day	0.2270	-	146,844	53,620	5,807	206,271
N5R	27	178 kVA	1,741,459	-	6.5190	2.700 c/kVA/day	0.0110	-	113,526	47,464	192	161,181
UCC	9		-	(0.3900)	-	-	-	(1,281)	-	-	-	(1,281)
RCC	92		-	(0.3900)	-	-	-	(13,096)	-	-	-	(13,096)
Total Capacity Groups	5,319		76,521,842					1,537,937	4,662,422	1,754,063	5,999	7,960,420
Network Maximum Demand (NMD)												
NMD - Variable				-	3.5970		-	-	1,564,558		-	1,564,558
NMD - Capacity	153	229 kVA	43,496,187	\$0.810/kVA/mth	-	\$0.588/kVA/mth	-	340,580	-	247,221	-	587,781
NMD - Maximum Demand	153	148 kW		\$3.757/kW/mth	-	\$2.725/kW/mth	-	1,020,882	-	740,459	-	1,761,341
Total NMD	153		43,496,187					1,361,442	1,564,558	987,680	-	3,913,679
TOTAL GENERAL	5,627		122,173,836					3,139,213	6,226,979	2,791,924	5,999	12,164,115
TOTAL RETAIL	24,621		246,165,057					3,711,156	15,498,666	4,550,688	1,088,706	24,849,216
MAJORS												
Customers												
Fonterra (BoPE)	1			\$30,495.23/mth		\$9,286.32/mth		365,943	-	111,436	-	477,379
Fonterra Lipid & Distillery	1			\$3,640.49/mth		\$5,050.67/mth		43,686	-	60,608	-	104,294
SCA Hygiene (TP)	1			\$4,360.35/mth	-	\$61,847.51/mth		52,324	-	742,170	-	794,494
CHH Waiakatare (TP)	1			\$17,109.80/mth	-	\$131,566.35/mth		205,318	-	1,578,796	-	1,784,114
Kangaroo Timberlands (TP)	1			\$22,033.61/mth	-	\$7,702.09/mth		264,403	-	92,425	-	356,828
CHH - Kawerau (TP)	1			\$3,263.72/mth	-	\$19,331.25/mth		39,165	-	231,975	-	271,140
Norske Skog Oxidation Ponds (TP)	1			\$7,038.88/mth	-	\$14,467.17/mth		84,467	-	173,606	-	258,073
Sequal Investments	1			\$8,612.60/mth		\$4,659.35/mth		103,351	-	55,912	-	159,263
Forterra Assets	1			\$1,250.00/mth		\$0.00/mth		15,000	-	-	-	15,000
TG2 Transformer	1			\$0.00/mth		\$0.00/mth		-	-	-	-	-
GDL Breaker Contract	1			\$585.00/mth		\$0.00/mth		7,020	-	-	-	7,020
TG1 & TG2	1			\$5,303.17/mth		\$0.00/mth		63,638	-	-	-	63,638
TOTAL MAJORS	12							1,244,314	-	3,046,929	-	4,291,243
GRAND TOTAL	24,633		246,165,057					4,955,470	15,498,666	7,897,616	1,088,706	29,140,458

Remapped base March 2010 quantities:

The 2010 quantities have been mapped to the new tariff structure introduced effective from 1 April 2011. These quantities, in total, are consistent with those used to derive allowable notional revenue (as shown in the table overleaf) however as the structure of our tariffs changed from 1 April 2011 they have had to be remapped to match the tariffs which now apply to each of those ICPs. It is noted that in implementing our new tariff structure we were able to improve the allocation of ICPs to consumer groups and accordingly a small number of ICPs have moved between domestic, special, capacity and maximum demand consumer groups.

Horizon Energy P X Q SCHEDULE
Prices at 31 March 2011
Period: Annual
365 Days

BASE QUANTITIES 31 March 2010				2010/11 Tariffs			Regulatory Revenue (P X Q)			
Consumer Groups	ICPs	Ave Capacity/ MD per ICP	kWh	Line Charges		Pass Through Charge	Line Charges		Pass Through Revenue	Total Revenue
				Fixed \$ per day	Variable c/kWh	c/kWh	Fixed (\$)	Variable (\$)	Revenue (\$)	Revenue (\$)
RETAIL										
DOMESTIC (Low Fixed Charge)										
DU	11,876		74,079,673	0.1500	7.1150	2.0790	650,211	5,270,769	1,540,116	7,461,096
DR	6,719		48,106,521	0.1500	7.1150	2.0790	367,865	3,422,779	1,000,135	4,790,779
TOTAL DOMESTIC	18,595		122,186,194				1,018,076	8,693,548	2,540,251	12,251,875
GENERAL										
Specials										
U/Verandah Lights	23			\$0.09653/day	-	\$0.03568/day	810	-	300	1,110
Electric Fence	23			\$0.21773/day	-	\$0.08396/day	1,828	-	705	2,533
Lanark	1			\$293.83/mth	-	(\$302.47)/mth	3,526	-	(3,630)	(104)
Street Lights	22		2,155,807	-	7.9720	2.0790	-	171,861	44,819	216,680
Telecom - PCM 24 hour	71			\$31.037/mth	-	\$7.634/mth	26,444	-	6,504	32,948
Telecom - controlled	18			\$11.956/mth	-	\$3.170/mth	2,582	-	685	3,267
Total Specials	158		2,155,807				35,190	171,861	49,383	256,434
Capacity Groups										
N1U	902	-	4,176,339	1.2540	4.2490	2.0790	412,854	177,453	86,826	677,133
N1R	1,239	-	3,878,059	1.3100	4.3690	2.0790	592,428	169,432	80,625	842,485
N2U	745	-	12,809,455	1.4810	3.7920	2.0790	402,721	485,735	266,309	1,154,764
N2R	1,992	-	24,963,321	1.5940	4.0420	2.0790	1,158,966	1,009,017	518,987	2,686,970
N3U	252	-	9,345,191	1.9370	3.7920	2.0790	178,165	354,370	194,287	726,821
N3R	301	-	12,916,047	2.1650	4.0420	2.0790	237,858	522,067	268,525	1,028,449
N4U	59	-	2,999,730	2.5060	3.7920	2.0790	53,967	113,750	62,364	230,081
N4R	45	-	2,701,629	2.8480	4.0420	2.0790	46,778	109,200	56,167	212,145
N5U	34	170 kVA	2,818,468	1.857c/kVA/day	3.5960	2.0790	39,184	101,352	58,596	199,132
N5R	28	178 kVA	1,765,864	2.006c/kVA/day	3.9110	2.0790	36,570	69,063	36,712	142,345
UCC	13	-	-	(0.7290)	-	-	(3,459)	-	-	(3,459)
RCC	101	-	-	(0.7850)	-	-	(28,939)	-	-	(28,939)
Total Capacity Groups	5,711		78,374,104				3,127,093	3,111,438	1,629,398	7,867,928
Network Maximum Demand (NMD)										
NMD - Variable	-	-	43,448,952	-	1.0460	2.0790	-	454,476	903,304	1,357,780
NMD - Capacity	157	229 kVA	-	\$0.684/kVA/mth	-	-	295,496	-	-	295,496
NMD - Maximum Demand	157	148 kW	-	\$6.722/kW/mth	-	-	1,873,815	-	-	1,873,815
Total NMD	157		43,448,952				2,169,311	454,476	903,304	3,527,091
TOTAL GENERAL	6,026		123,978,863				5,331,594	3,737,775	2,582,084	11,651,453
TOTAL RETAIL	24,621		246,165,057				6,349,670	12,431,323	5,122,335	23,903,328
MAJORS										
Customers										
Fonterra (BoPE)	1			\$30,495.23/mth	-	\$9,365.22/mth	365,943	-	112,383	478,325
Fonterra Lipid & Distillery	1			\$3,193.63/mth	-	\$5,050.67/mth	38,324	-	60,608	98,932
SCA Hygiene (TP)	1			\$4,317.15/mth	-	\$55,234.90/mth	51,806	-	662,819	714,625
CHH Whakatane (TP)	1			\$17,029.65/mth	-	\$104,012.83/mth	204,356	-	1,248,154	1,452,510
Kaingaroa Timberlands (TP)	1			\$23,377.13/mth	-	\$6,843.41/mth	280,526	-	82,121	362,647
CHH - Kawerau (TP)	1			\$3,256.98/mth	-	\$12,395.77/mth	39,084	-	148,749	187,833
Norske Skog Oxidation Ponds (TP)	1			\$7,004.49/mth	-	\$13,600.69/mth	84,054	-	163,208	247,262
Sequal Investments	1			\$8,612.60/mth	-	\$3,624.38/mth	103,351	-	43,493	146,844
Fonterra Assets	1			\$1,250.00/mth	-	-	15,000	-	-	15,000
TG2 Transformer	1			\$730.00/mth	-	-	8,760	-	-	8,760
GDL Breaker Contract	1			\$585.00/mth	-	-	7,020	-	-	7,020
TG1 & TG2	1			\$5,106.00/mth	-	-	61,272	-	-	61,272
TOTAL MAJORS	12						1,259,494	-	2,521,534	3,781,029
GRAND TOTAL	24,633		246,165,057				7,609,164	12,431,323	7,643,870	27,684,356

Appendix C – Pass Through Costs (Clause 11.1(b)(ii))

Pass Through Costs for year ending March 2012				
K ₂₀₁₂	Actual (\$)	Forecast (\$)	Variance (\$)	Variance (%)
Transmission	4,927,470	4,927,470	(0)	(0.0%)
Avoided Transmission	2,919,128	3,143,250	(224,122)	(7.7%)
Rates	115,690	126,924	(11,234)	(9.7%)
Electricity Authority Levies	74,588	62,244	12,344	16.5%
Commerce Act Levies	47,410	92,009	(44,600)	(94.1%)
Total Pass Through Costs	8,084,285	8,351,897	(267,612)	(3.3%)

Other Pass-Through Cost Variances

Horizon Energy has over recovered the pass-through costs associated with local authority rates and regulatory agency levies by a total of \$15,375. Although not material in total or individually the variance never the less contributes to the overall breach level.

Each of these cost items have a different cost setting timeline compared to the Default Price-Quality Path (DPQ) measurement period.

Local Authority Rates

For 2011/12 the value of local authority rates was over estimated by \$11,234 due to an arithmetic error in using Goods and Services Tax (GST) inclusive values and also over forecasting the annual rates increase.

Commerce Act Levies

The prediction of Commerce Act levies is also subject to forecasting error. Horizon Energy forecast the 2011/12 levies at \$92,009 (based on historic levels/increases) whereas the actual cost was \$47,410 resulting in an over recovery of \$44,600.

Electricity Authority Levies

These levies are also uncertain and difficult to predict. The estimate of \$62,244 was below the actual incurred cost by \$12,344. The increase in levies is the result of increased regulatory activity by the EA within the distribution industry.

[illegible]

SAIDI Limit

μ_{SAIDI}	181.4480	The average annual SAIDI Value in the Normalised Reference Dataset
σ_{SAIDI}	38.6103	The standard deviation of daily SAIDI Values in the Normalised Reference Dataset multiplied by $\frac{1}{\sqrt{365}}$
$SAIDI_{Limit} = \mu_{SAIDI} + \sigma_{SAIDI}$	220.0583	SAIDI Limit Value

SAIFI Limit

μ_{SAIFI}	2.0487	The average annual SAIFI Value in the Normalised Reference Dataset
σ_{SAIFI}	0.3476	The standard deviation of daily SAIFI Values in the Normalised Reference Dataset multiplied by $\frac{1}{\sqrt{365}}$
$SAIFI_{Limit} = \mu_{SAIFI} + \sigma_{SAIFI}$	2.3962	SAIFI Limit Value

Reliability Assessment Calculations (2012 Assessment Period)**Event Days exceeding SAIDI Boundary Value within the 2012 Assessment Dataset**

Date	Pre-Normalised SAIDI	Pre-Normalised SAIFI	Normalised SAIDI	Normalised SAIFI
nil			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-

Assessed SAIDI Value 2012

$SAIDI_{2012}$	174.6412	The sum of daily SAIDI Values in the 1 April 2011 - 31 March 2012 Normalised Assessment Dataset
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Assessed SAIFI Value 2012

$SAIFI_{2012}$	2.2389	The sum of daily SAIFI Values in the 1 April 2011 - 31 March 2012 Normalised Assessment Dataset
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Prior Period Assessed Values**Assessed SAIDI Value 2011**

$SAIDI_{2011}$	177.4069	The sum of daily SAIDI Values in the 1 April 2010 - 31 March 2011 Normalised Assessment Dataset
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Assessed SAIFI Value 2011

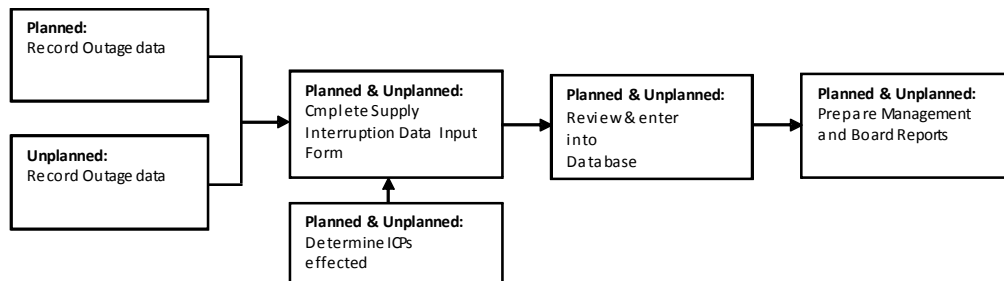
$SAIFI_{2011}$	2.3927	The sum of daily SAIFI Values in the 1 April 2010 - 31 March 2011 Normalised Assessment Dataset
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Appendix E – Policies and Procedures for Recording SAIDI and SAIFI (Clause 11.1(b)(v))

Horizon Energy captures outage data following planned and unplanned outages. Control Room staff follow a written procedure to record network outage data. This data is then entered into a database to facilitate fortnightly, monthly and yearly reporting.

Capture of Statistical Information

The procedures followed to capture statistical information for planned outages and unplanned outages (less than 24 hours notice) are very similar and rely on the accurate recording of the timing and sequence of operations carried out on the network. The following diagram sets out the procedural flow for the recording of planned and unplanned outage data. Each flow is also discussed in detail below.



Planned Outages – Initial Recording of Outage Data

The sequence of operations for all planned outages are recorded on a Network Switching Schedule

This schedule records:

- Outage dates
- Outage location and equipment
- Outage type
- Switching instructions
- Mechanism for notification of outages
- Issuing of permits
- The exact time of each operation from the SCADA screen

Unplanned Outages – Initial Recording of Outage Data

The sequence of operations for all unplanned outages are recorded on an unplanned outage instruction sheet, similar details as above are recorded as the instructions are carried out.

Planned and Unplanned Outages – Supply Interruption Data Input Form

Following the completion of the switching, information is transferred to a Supply Interruption Data Input Form. Relevant switching operations are recorded along with customer numbers (discussed below) and length of time before restoration. This data is used to calculate the SAIDI and SAIFI impact of the outage.

Planned and Unplanned Outages – Customer Numbers

Customer numbers (ICPs) for both unplanned and planned outages are sourced from the Network Management System (NMS) database. ICPs are counted between isolation points on the network to determine the impact of an outage. The NMS database is updated regularly to the national registry with new and disconnected customers.

Planned and Unplanned Outages – Collation of Data

On completion of the Supply Interruption Data Input form it is entered into the Horizon Energy Support Systems Database. The information is reviewed for accuracy and completeness before it is reported against. This database contains data for all outages in the current year and prior years.

Planned and Unplanned Outages – Management and Board Reports

From the database reports are generated containing statistics for year to date on SAIDI and SAIFI. This is provided to management and the Board of Directors to drive performance and network improvements.

Disclaimer

The information presented in this Default Price-Quality Path Compliance Statement has been prepared solely for the purpose of complying with the requirements of the Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010. This statement has not been prepared for any other purpose and Horizon Energy Distribution Limited expressly disclaims any liability to any other party who may rely on this statement for any other purpose.

