

HORIZON ENERGY DISTRIBUTION LIMITED

THRESHOLD COMPLIANCE STATEMENT

FOR THE ASSESSMENT DATE, 31 MARCH 2008

Pursuant to the Commerce Act (Electricity Distribution Thresholds)

Notice 2004 and Amendment Notice 2006

5 May 2008

Contents

1) Disclosure of Information Required – The Price Path Threshold	Page 2
2) Disclosure of Information Required – The Quality Threshold	Page 6
3) Disclosure of Information Required - Customer Communications	Page 7
4) Disclosure of Information Required – Policies & Procedures for Recording SAIFI & SAIDI Statistics	Page 19
5) Auditor’s Report on the Threshold Compliance Statement	Page 20
6) Certification of the Threshold Compliance Statement	Page 23
APPENDIX A – Notional Revenue at 31 March 2008 Assessment Date	Page 24
APPENDIX B – Schedule of Prices and Quantities	Page 28
APPENDIX C – SAIDI and SAIFI Statistics	Page 29
APPENDIX D – Outage Schedules	Page 30

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

Horizon Energy Distribution Limited (“Horizon Energy”) has complied with the requirements of the price path threshold at 31 March 2008, as specified in the Commerce Act (Electricity Distribution Thresholds) Gazette Notice 2004 and 2006 Amendment (“Gazette Notices”).

1.1 Clause 5 (1) (a) Notional Revenue Test

Clause 5 (1) (a) Notional Revenue (“NR₂₀₀₈”) at 31 March 2008 should not exceed Allowable Notional Revenue (“R₂₀₀₈”) at 31 March 2008.

Test:	$\frac{NR_{2008}}{R_{2008}} \leq 1$
Result:	\$15,566,183 / \$15,839,467 < 1
Result:	0.9827 < 1
Result:	Threshold is not breached

Notional Revenue at 31 March 2008 does not exceed allowable Notional Revenue under the CPI-X price path at 31 March 2008. Supporting evidence is presented in Appendices A and B.

1.2 Clause 5 (1) (b) Notional Revenue Test

Clause 5 (1) (b) Notional Revenue at any time during the assessment period 1 April 2007 to 31 March 2008 should not exceed the greater of Allowable Notional Revenue at 31 March 2007 and 31 March 2008.

Test:	$\frac{NR_{Max}}{Max(R_{2007}, R_{2008})}$	≤ 1
Result:	\$15,566,183 / \$15,839,467	< 1
Result:	0.9827	< 1
Result:	Threshold is not breached	

Revenue at any time during the assessment period ending 31 March 2008 did not exceed the greater of Allowable Notional Revenue at 31 March 2007 and 31 March 2008. Supporting evidence is presented in Appendices A and B.

1.3 Notional Revenue:

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

- The sale of electricity conveyance services to electricity retailers and customers.

1.4 Excluded Services:

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

- Rent and interest income because this revenue has not been derived from electricity conveyance services.
- Warehouse sales income because all items sold from the warehouse are readily available from multiple electrical sales outlets operating within close proximity.

- The sale of electricity conveyance services to two major customers because there was effective competition for the provision of these services at the time the sales were agreed. Explanation and supporting evidence for excluding revenue from these customers was presented in Appendix F of the Threshold Compliance Statement (“Compliance Statement”) at the first assessment date (6 September 2003). We would be happy to provide this information again on request.

All excluded services are the same as disclosed in the previous Compliance Statements at 6 September 2003, 31 March 2004, 31 March 2005, 31 March 2006 and 31 March 2007. There has been no change to the provision of these services from previous Compliance Statements, and accordingly, previous evidence presented remains relevant.

1.5 Pass Through Costs - Transmission Charges

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

- connection charges
- interconnection charges
- notional embedding charges
- loss constraint excess payments (rental rebates)
- provision of system operator services
- avoided transmission charges and associated costs

1.6 Pass Through Costs – Local Body Rates

Local body rates applying to system fixed assets (electricity lines, cables, equipment, substation land and substation buildings) have been passed through in accordance with the Gazette Notice.

1.7 Pass Through Costs – Electricity Commission Levies

Electricity Commission levies incurred during the year ending 31 March 2008 have been passed through in accordance with the Gazette Notice.

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

This section contains Horizon Energy’s performance against the quality thresholds as specified in Gazette Notice.

Clause 6 (1) (a) Interruption Duration (Class B & C)

Test:	$SAIDI_{2008} \leq \left(\frac{SAIDI_{1999} + SAIDI_{2000} + SAIDI_{2001} + SAIDI_{2002} + SAIDI_{2003}}{5} \right)$		
Result:	144.00	<	160.60
Result:	SAIDI does not breach the threshold		

Clause 6 (1) (b) Interruption Frequency (Class B & C)

Test:	$SAIFI_{2008} \leq \left(\frac{SAIFI_{1999} + SAIFI_{2000} + SAIFI_{2001} + SAIFI_{2002} + SAIFI_{2003}}{5} \right)$		
Result:	1.57	<	1.87
Result:	SAIFI does not breach the threshold		

Supporting evidence underpinning the derivation of SAIDI and SAIFI is presented in Appendix C.

3. Disclosure of Customer Communication (Clause 6 (1) (c))

Under clause 6 (1) (c) of Gazette Notice, Horizon Energy is required to report on customer communications once during the two-year period ending 31 March 2008. Horizon Energy last reported on customer communication in its 31 March 2006 Compliance Statement.

3.1 Definition of Quality

Horizon Energy defines quality from an end user or consumer perspective:

- Availability of continuous power
- Voltage consistency within regulated limits
- Quick response to restore power following an outage
- Consideration in the scheduling of planned outages of the network
- A network system designed to meet the capacity and energy needs of the customer
- Good customer service levels.

3.2 Summary of Results

The results of the communications indicate that customers are generally satisfied with the price and quality trade-off that Horizon Energy provides. This is evident in a number of ways:

- Survey respondents were generally satisfied with current quality levels
- No general response from customers for improvements in quality levels (associated with a higher price)
- No queries on disclosed information including the Asset Management Plan and pricing schedules
- No contact from consumers received from the Company's dedicated price-quality website area.
- Continued growth in network connections both at a residential and commercial level.

3.3 Demonstration of Customer Consultation

Horizon Energy has continually interacted with customers with respect to price and quality trade-offs over the last two years. Horizon Energy, through its involvement at Energy Fest, has

taken these opportunities to communicate with customers in relation to the price-quality trade-off specifically targeted to meet the requirements of clause 6 (1) (c) of Gazette Notice.

The following table provides a summary of the three main processes employed by Horizon Energy that demonstrate compliance with clause 6 (1) (c) of Gazette Notice:

Process	(i) Properly Advise	(ii) Consult	(iii) Consider	(iv) Action
Surveys	Surveys were distributed considering specific price and quality options to customers at the Whakatane Energy Fest August 2006.	Consumers were consulted about price and quality they require by: <ul style="list-style-type: none"> • Requesting consideration of price-quality trade-offs. • Following up on requests for further information. 	Results of the customer surveys were aggregated, analysed and considered by senior management.	The analysis of the results has been incorporated into the AMP by: <ul style="list-style-type: none"> • Consideration of customer consultation results, historical and forecast quality and financial data • Other actions including sponsorships
Direct Consultation	Horizon Energy properly advised customers or representatives by providing information directly to: <ul style="list-style-type: none"> • New customers • Large industrial customers • Consumer advocacy bodies • Target groups associated with specific supply assets 	Customer quality and price requirements were consulted directly with: <ul style="list-style-type: none"> • New customers • Large customers annually or more regularly • Customer advocacy groups • Retailers with respect to initially establishing and renewing UoSA. 	Customer views were considered when: <ul style="list-style-type: none"> • Developing new connection agreements • Undertaking annual pricing or changing connection agreements • considering applicability of customers to the Low Fixed Charge Domestic option 	Customer views were taken into account through: <ul style="list-style-type: none"> • Agreement on new or changed connections. • Agreement on price and quality matters.
Information Disclosure	Horizon Energy publishes price and quality information via its website, newspapers and retailers: <ul style="list-style-type: none"> • Tariff disclosures • Pricing Methodology • Information Disclosure • Use of System Agreements (UoSA) • Standard Terms and Conditions 	Horizon Energy engages with customers directly on any aspect of information disclosure. However this rarely occurs.	Horizon Energy will consider any feedback on information disclosures from customers. Horizon Energy engages in and considers best practice reviews undertaken on information disclosure and reporting requirements	Horizon Energy will action any appropriate feedback on information disclosures from customers. Horizon Energy incorporates appropriate best practice recommendations into information disclosure and reporting requirements.

3.4 Customer Consultation Process - Detail

Whilst the table above demonstrates compliance against the four limbs of clause 6 (1) (c) of Gazette Notice, in practice compliance with the four limbs does not occur in discrete components. For example it is typical that properly advising and consulting with customers occurs simultaneously and the consideration and action of customer views occurs generally in close succession. In fact the process tends to be iterative whereby following consultations with customers, consideration and taking action on customers needs may require a further round of consultation.

The remainder of this section sets out the process undertaken on this basis:

3.3.1 Properly Advise and Consult

Horizon Energy has properly advised and consulted with its customers of the price and quality trade offs available to them in relation to the goods and services provided by the Company in a number of ways:

a) Surveys

A survey was undertaken at the Eastern Bay Energy Fest that is sponsored by the Eastern Bay Energy Trust. Horizon Energy had a stand at this expo, and in association with the dissemination of general company information, visitors to the stand were given the opportunity to complete a questionnaire that specifically targeted Price and Quality Trade-off assessment.

The main purpose of the survey was two fold:

- Quality – Get an understanding of customers' satisfaction with the quality level provided by the Company.
- Price & Quality Trade-off - Determine whether urban and rural customers would consider a price increase of \$10 and \$20 per month respectively to halve the number of outages experienced per annum and an additional \$10 and \$20 per month respectively to halve the time taken to respond

In addition to the specific questions asked, a section for additional comments was provided. Where customers requested further information or to meet with the Company, the company consulted individually with those customers.

In support of the Company’s view the customers are generally satisfied with the price and quality trade-offs offered by Horizon Energy, the following results were achieved:

Supply

	Continuous Supply		Voltage Consistency		Restoration Time	
Urban	Good	99	Good	86	Good	75
	Average	17	Average	28	Average	38
	Poor	0	Poor	2	Poor	3
Rural	Good	51	Good	49	Good	45
	Average	11	Average	12	Average	18
	Poor	2	Poor	3	Poor	1

Price & Quality

	Increased Monthly Charge to Halve Number of Outages		Increased Monthly Charge to Halve Restoration Time	
Urban	No	96	No	97
	Yes	20	Yes	19
Rural	No	61	No	63
	Yes	6	Yes	4

The results of this survey were in line with others where an over riding preference for the status quo was measured.

b) Direct Consultation

Horizon Energy engages both formally and informally through a combination of meetings, telephone and email communications:

- New customers – When any new customer wishes to connect to Horizon Energy’s network, either an employee of the Company or a third party on behalf of Horizon Energy consults with the customer directly to discuss the new connection. Specific information with respect to the different connection types available (for example, different level of capacities) is provided to the customer along with the pricing implications. Depending on the customer and connection type advising and consulting with customer on price and quality options can be extensive.
- Large industrial customers – Horizon Energy usually meets at least annually with larger industrial customers. These meetings can be to discuss pricing for the coming year, renewal of connection agreements or changes to connection agreements (including system changes). Inherently through this process, information on price and quality trade-offs are provided and consulted on.
- Customer advocacy bodies – Horizon Energy directly consulted with the Eastern Bay Energy Trust, which is a consumer-owned Trust that has a significant shareholding in Horizon Energy (77.3%). Price and quality trade-off information was specifically discussed with the Trust during this process resulting in one specific project being funded for by the Trust. This project involved the upgrading of lines to ensure their

visibility in areas prone to aviation. This project was undertaken for safety reasons for aviation but the replacement of infrastructure improved the long term quality of consumers supplied by the line route and minimised the risk of interruption through aviation accidents.

- During the first week of April 2007 a meeting was organised, hosted by the Opotiki District Council, between Transpower and Horizon Energy staff, media and public to discuss the performance of the electrical assets that supply the Eastern Bay of Plenty from Opotiki to Cape Runaway. This meeting provided information on the performance of the assets, pricing and the need to undertake maintenance work in the future. A 12 hour outage was required on the 6 May 2007 to undertake the reconstruction of one of the structures on the 110 kV line that feeds this area.

c) Information Disclosure

Horizon Energy makes a significant amount of information available on the price and quality trade-offs available to all groups of customers via newspaper advertisements, gazetted documents and website disclosures. The information includes:

- Tariff Schedules – pricing for differing levels of connection offerings
- Asset Management Plan – this has considerable historical, current and forecast technical, quality and financial related information.
- Information Disclosure – information on both financial performance of the regulatory business of Horizon Energy and corresponding quality performance
- Threshold Compliance Statements – Provides customers with information with respect to price and quality performance
- Pricing Methodology – provides customers with information on the methodology used to derive prices
- Use of System Agreements – Whilst negotiating the UoSA in 1999 with retailers, the customer representatives, were provided with price and quality information in order to reach agreement. These contracts include Network Performance Standards, which are reviewed at the time of any re-negotiation of the agreements. Renegotiations of the UoSA are currently underway with all retailers operating on the Company's network.

The Company's proposed UoSA is based on the Electricity Commission's template which considers both price and quality levels.

- Standard Terms and Conditions – Provided to customers to enable them to understand the price and quality trade-offs associate with new or changed connections.

3.3.2 Consider and Action

Horizon Energy has properly considered and where appropriate acted upon the views of its customers during and after consultation by:

a) Surveys

Proper consideration is demonstrated by the aggregation and consideration of the results of the surveys undertaken during the period. The action based on customers' views are considered in the asset management planning process. The results of the survey (and lack of response) indicate that Horizon Energy customers are generally happy with the current price and quality trade-off. Essentially a large percentage of the respondents must demand additional quality and be prepared for price increases to incorporate these issues. The asset management planning is complex, however at a high level, Horizon Energy's current asset management planning strategy is to continue to maintain or improve quality at the lowest cost for customers. This is evident in section 3 of Horizon Energy's AMP (available on the Horizon Energy website) where:

- Customer survey results are set out
- A slightly improved and flat target quality level over the next five years
- Comparisons of historical quality levels since 1996-97
- Service level targets that are flat over the forecast period and consistent with prior years
- Forecast and historical comparisons of financial performance and key indicators such as maintenance spend (section 6).

Horizon Energy considers it provides a good level of information to customers and notes that many of the above bullet points were best practice recommendations arising from the recent Commerce Commission review of distribution business AMPs.

At an operational level, given the increase in incidents of extreme weather events Horizon Energy has targeted tree-trimming programmes to reduce the impact of these events. In

addition, due to the impact of the extreme weather events, Horizon Energy has increased its use of live line techniques to reduce the impact on customers and attempt to maintain historical levels of quality.

The surveys also indicated that many customers are unclear as to Horizon Energy's role as an electricity distributor compared with that of retailers in the electricity industry. As a result of the survey and past anecdotal evidence Horizon Energy is increasing awareness of the Company in the Community. Stalls at local Energy and Business Expos are a demonstration of this.

b) Direct Consultation

Horizon Energy has continued to grow the number of network connections on its network for residential, commercial and industrial. Consideration of customers' views is inherent in the end result of entering into new (or changing existing) connection agreements and agreeing prices. The key aspect is finding the right technical solution that meets the customer's quality and pricing requirements.

Horizon Energy has been consulting with and considering and (where appropriate) acting upon customer feedback with large customers. Consideration of and acting upon customer views with respect to price and quality is implicit in the annual price review process that encompasses changes in customer demand levels and changes in price or connection requirements.

Consultation with consumers in the Opotiki and East Cape area was specifically targeted to that area of supply and quality issues. The outcomes of this meeting were the identification that Horizon Energy could provide better price - quality outcomes through ownership of Transpower's transmission assets in the area.

Horizon Energy approached Transpower in 2006 about these assets and was unsuccessful however due to the continuing quality of supply issues in the area Horizon Energy and Transpower are currently reconsidering options to improve quality of supply.

The current terms of the UOSA are the result of historical negotiations with retailers, who represent customers. Following agreement on the terms of the new UoSA which will

incorporate both Electricity Commission price and quality considerations and negotiations across all retailers operating on the Horizon Energy network, these conditions will flow through from a price and quality perspective.

c) Information Disclosure

Horizon Energy has been closely monitoring and providing input into the various submission processes being undertaken by regulatory bodies that aim to improve the content of regulatory driven information disclosures. In particular, Horizon Energy is currently incorporating appropriate best practice recommendations on reviews of the Asset Management Plan (“AMP”) and processes such as Customer Consultation. This is evident in section 3 of the AMP that incorporates specific references to recent regulatory initiatives around customer consultation. Other best practice initiatives will be incorporated into information disclosure documents when re-published during the 2008-09 year.

Horizon Energy welcomes any feedback from customers with respect to its information disclosure. An important addition is that Company’s website now has a dedicated area where consumers can provide feedback on price and quality matters. However it is extremely rare that customers provide any feedback or require further consultation on this information.

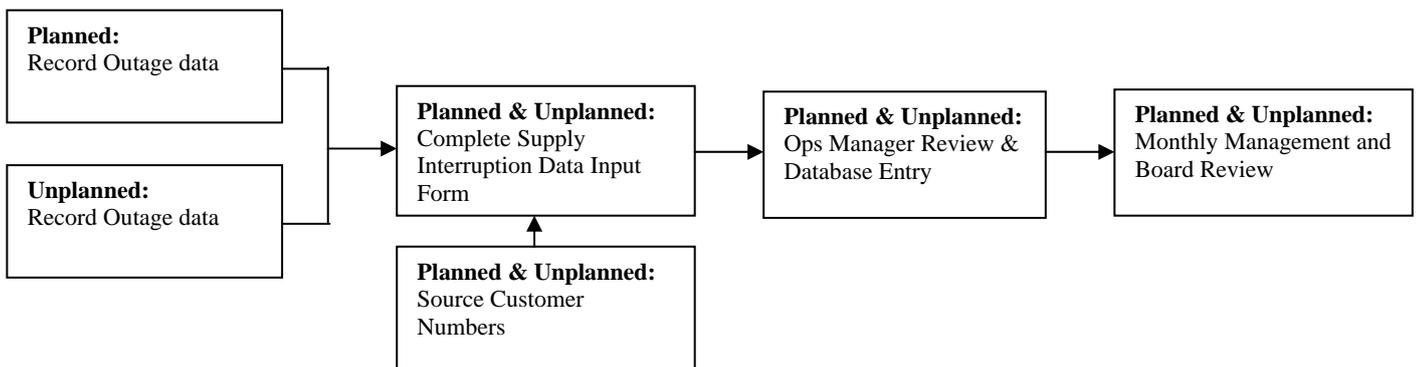
4. Disclosure of Information Required (Clause 7(1)(a)(iii) – Policies & Procedures for recording SAIFI & SAIDI statistics)

Policies And Procedures Used To Record SAIDI And SAIFI Statistics

Horizon Energy does not have an automated system for the capture of outage data. Control Room staff by means of a written procedure record network outage data.

Capture of Statistical Information

The procedures followed to capture statistical information for planned outages and unplanned outages (less than 24 hours notice) are the same except for the initial recording of outage data. 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

All planned outage data must be recorded on the Network Switching Schedule (refer Appendix D).

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

For initial data capture and recording of unplanned outages, similar details as above are recorded on the reverse side of the Supply Interruption Data Input Form (refer Appendix D).

Planned and Unplanned Outages – Supply Interruption Data Input Form

Following the initial recording of planned or unplanned outage data, information is transferred to a Supply Interruption Data Input Form. Individual line switching operations are completed, including customer numbers (discussed below) and length of time before restoration. This data enables the calculation of SAIDI and SAIFI impacts. The impact of each operation is summed to generate the outage statistics.

Planned and Unplanned Outages – Customer Numbers

Customer numbers for both unplanned and planned outages are sourced from the NMS database. Customer numbers can be sourced between nodes or at an individual transformer level. The database is continually updated (with new and disconnected customers).

Planned and Unplanned Outages – Collation of Data

On completion of the Supply Interruption Data Input form, it is delivered (within two working days) to the Operations Manager. The Operations Manager reviews the form for accuracy and completeness and enters the data into the Horizon Energy Support Systems Database. During 2005-06 the calculation of statistics including customer minutes and SAIDI and SAIFI were automated on the input form. This decreases the risk of human error in the derivation of the statistics. The form is then stamped as processed and filed. This database contains the data for all outages during the year (and historical data).

Planned and Unplanned Outages – Management and Board Review

From the database, a monthly report is generated containing rolling 12-monthly outage statistics (including outage type, duration and impact on SAIDI and SAIFI statistics) and is provided to management and the Board of Directors for review and discussion.

Disclaimer

The information presented in this Threshold Compliance Statement has been prepared solely for the purpose of complying with the requirements of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and Amendment Notice 2006. 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.

5. Auditor's Report on the Threshold Compliance Statement



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AUDITORS' REPORT ON THRESHOLD COMPLIANCE STATEMENT

To the readers of the threshold compliance statement of Horizon Energy Distribution Limited for the assessment period ended on 31 March 2008

We have examined the attached statement, which is a threshold compliance statement in respect of the price path threshold and the quality threshold prepared by Horizon Energy Distribution Limited for assessment as at 31 March 2008 and dated 5 May 2008 for the purposes of information requirements set out in clause 7 of the Commerce Act (Electricity Lines Thresholds) Notice 2004 ("the Notice"). In this report the attached statement is called "the threshold compliance statement".

Directors' Responsibilities

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

Auditors' Responsibilities

It is our responsibility to express an independent opinion (in the form prescribed in the Notice) on the threshold compliance statement and report our opinion to you.

We conducted our audit in accordance with the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand.

Basis of Opinion - Price Path Threshold; Quality Threshold: SAIDI and SAIFI Statistics for the Assessment Period ended 31 March 2008; and Quality Threshold: Customer Communication

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages 2 to 19 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
- the SAIDI and SAIFI statistics for the assessment period ended on 31 March 2008 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
- the customer communication part of the quality threshold set out in clause 6(1)(c) of the Notice.

It also included an assessment of the significant estimates and judgements, if any, made by Horizon Energy Distribution 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 our 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.

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 Horizon Energy Distribution 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

We have no relationship with or interests in Horizon Energy Distribution Limited other than in our capacities as auditors of the threshold compliance statements, auditors pursuant to the Electricity Information Disclosure Requirements 2004 and under the Companies Act 1993, and in the provision of other professional advisory services. We are not aware of any relationships between our firm and Horizon Energy Distribution Limited that, in our professional judgment, may reasonably be thought to impair our independence.

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 Horizon Energy Distribution Limited against that threshold for the assessment period ended on 31 March 2008.

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 2008 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 Horizon Energy Distribution Limited's policies and procedures for recording SAIDI and SAIFI statistics as disclosed in the threshold compliance statement, and fairly represent the performance of Horizon Energy Distribution Limited for the assessment period ended on 31 March 2008;
- 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 Horizon Energy Distribution 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 Horizon Energy Distribution Limited.

Quality Threshold: Customer Communication

In our opinion, having made all reasonable enquiry, to the best of our knowledge the information set out in the threshold compliance statement relating to that part of the quality threshold that is set out in clause 6(1)(c) of the Notice has been prepared in accordance with the Notice, and gives a true and fair view of the performance of Horizon Energy Distribution Limited against that part of the quality threshold for the assessment period ended on 31 March 2008.

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; and
- Control over the completeness and accuracy of ICP data included in the SAIDI and SAIFI calculations is limited throughout the period.

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 2008, 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 Horizon Energy Distribution 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 2008.

Our audit was completed on 5 May 2008 and our qualified and unqualified opinions are expressed as at that date.



PricewaterhouseCoopers
Auckland
5 May 2008

6. Directors' Certificate on Threshold Compliance Statement (Clause 7(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 Threshold Compliance Statement of Horizon Energy Distribution Limited, and related information, prepared for the purposes of the Commerce Act (Electricity Distribution Thresholds) Notice 2004 complies with the requirements of this notice.



Robert Tait



John McDonald

5 May 2008

Appendix A – Notional Revenue at 31 March 2008 – Assessment Date

This appendix details the calculations underpinning the compliance with the Price Path Threshold at 31 March 2008. Details of prices and quantities are contained in Appendix B.

Clause 5 (1) (a)

- Notional Revenue at 31 March 2008 (NR_{2008})

Notional Revenue for the year ending 31 March 2008		
Term	Description	(\$)
$\sum P_{i,2008} Q_i$	Prices at 31 March 2008 multiplied by 31 March 2003 Base Quantities	23,559,355
K_{2008}	Transmission Charges for year ending 31 March 2008	7,810,721
	Rates for year ending 31 March 2008	124,116
	Electricity Commission Levies for year ending 31 March 2008	58,336
$NR_{2008} = \sum P_{i,2008} Q_i - K_{2008}$	Notional Revenue for the year ending 31 March 2008	15,566,183

Refer Table 1, Appendix B for details of prices and quantities.

- **Allowable Notional Revenue at 31 March 2008 (R_{2008}) and Performance Against the Threshold**

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	14,849,570
$(I + \Delta CPI_{2005})$	Average change in Consumer Price Index over 2004	1.0229
$(I - X)$	1-X Factor	0.99
R_{2005}	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2005	15,037,766
$(I + \Delta CPI_{2006})$	Average change in Consumer Price Index over 2005	1.0304
$(I - X)$	1-X Factor	0.99
R_{2006}	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2006	15,339,521
$(I + \Delta CPI_{2007})$	Average change in Consumer Price Index over 2006	1.0337
$(I - X)$	1-X Factor	0.99
R_{2007}	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2007	15,697,200
$(I + \Delta CPI_{2008})$	Average change in Consumer Price Index over 2007	1.0238
$(I - X)$	1-X Factor	0.99
$R_{2008 (unadjusted)}$	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2008 prior to adjustments	15,909,486
<i>Revenue Adjustment</i>	Allowable Notional Revenue reduction associated with removal of load control function from distribution services and prices at 1/04/07.	(70,019)
R_{2008}	Allowable Notional Revenue under the CPI-X Price Path for the year ended 31 March 2008	15,839,467
NR_{2008} / R_{2008}	Expression must be less than or equal to 1 to avoid breaching 5(1)(a)	0.9827
$R_{2008} - NR_{2008}$	Value of Compliance or (Breach)	273,285

For presentation purposes, the CPI Index has been presented to four decimal places, however, for the calculation of R_{2008} , the full index (with no rounding) has been applied.

- Change in CPI

ΔCPI_{2005}			
Numerator		Denominator	
<i>CPI</i> _{Q1,2004}	928	<i>CPI</i> _{Q1,2003}	913
<i>CPI</i> _{Q2,2004}	935	<i>CPI</i> _{Q2,2003}	913
<i>CPI</i> _{Q3,2004}	941	<i>CPI</i> _{Q3,2003}	918
<i>CPI</i> _{Q4,2004}	949	<i>CPI</i> _{Q4,2003}	924
Total	3753	Total	3669
ΔCPI_{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)

ΔCPI_{2006}			
Numerator		Denominator	
<i>CPI</i> _{Q1,2005}	953	<i>CPI</i> _{Q1,2004}	928
<i>CPI</i> _{Q2,2005}	962	<i>CPI</i> _{Q2,2004}	935
<i>CPI</i> _{Q3,2005}	973	<i>CPI</i> _{Q3,2004}	941
<i>CPI</i> _{Q4,2005}	979	<i>CPI</i> _{Q4,2004}	949
Total	3867	Total	3753
ΔCPI_{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)

ΔCPI_{2007}			
Numerator		Denominator	
<i>CPI</i> _{Q1,2006}	985	<i>CPI</i> _{Q1,2005}	953
<i>CPI</i> _{Q2,2006}	1000	<i>CPI</i> _{Q2,2005}	962
<i>CPI</i> _{Q3,2006}	1007	<i>CPI</i> _{Q3,2005}	973
<i>CPI</i> _{Q4,2006}	1005	<i>CPI</i> _{Q4,2005}	979
Total	3997	Total	3867
ΔCPI_{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)

ΔCPI_{2008}			
Numerator		Denominator	
<i>CPI</i> _{Q1,2007}	1010	<i>CPI</i> _{Q1,2006}	985
<i>CPI</i> _{Q2,2007}	1020	<i>CPI</i> _{Q2,2006}	1000
<i>CPI</i> _{Q3,2007}	1025	<i>CPI</i> _{Q3,2006}	1007
<i>CPI</i> _{Q4,2007}	1037	<i>CPI</i> _{Q4,2006}	1005
Total	4092	Total	3997
ΔCPI_{2008}	2.38%		

Clause 5 (1) (b)

- **Maximum Notional Revenue during the period 1 April 2007 to 31 March 2008 (R_{max})**

Maximum Notional Revenue for the period 1 April 2007 to 31 March 2008. P x Q using 31 March 2008 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	(\$)
$\sum P_{Max} Q_i$	Maximum Price Between 1 April 2007 and 31 March 2008 multiplied by 31 March 2003 Base Quantities	23,559,355
K_{2008}	Transmission Charges for year ending 31 March 2008	7,810,721
	Rates Charges for year ending 31 March 2008	124,116
	Electricity Commission Levies for year ending 31 March 2008	58,336
NR_{Max}	Maximum Notional Revenue for 1 April 2007 to 31 March 2008	15,566,183

- **Clause 5 (1) (b) Compliance Summary**

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 2007 to 31 March 2008	15,566,183
R_{2007}	Allowable Notional Revenue at 31 March 2007	15,697,200
R_{2008}	Allowable Notional Revenue at 31 March 2008	15,839,467
$Max(R_{2007}, R_{2008})$	Maximum of the Allowable Notional Revenue at 31 March 2007 and the Allowable Notional Revenue at 31 March 2008	15,839,467
$NR_{Max} / Max(R_{2007}, R_{2008})$	If expression is greater than 1, Clause 5 (1) (b) is breached	0.9827
$Max(R_{2007}, R_{2008}) - NR_{Max}$	Value of Compliance or (Breach)	273,285

Appendix B, Table 1 – Schedule of Prices and Quantities 5(1)(a) and 5(1)(b)

Period: Annual
365 Days

Consumer Groups	BASE QUANTITIES 31 March 2003			2007/08 Tariffs			2007/08 Regulated Line Revenue			
	ICPs	Ave Capacity/ MD per ICP	kWh	Line Charges		Pass Through	Line Charges		Pass Through	Total
				Fixed	Variable	Charge	Fixed	Variable	Revenue	Revenue
				\$ per day	c/kWh	c/kWh	(\$)	(\$)	(\$)	(\$)
RETAIL										
DOMESTIC (Low Fixed Charge)										
DU	11,550	-	75,134,823	0.150	6.306	1.905	632,363	4,737,715	1,431,379	6,801,457
DU C	5	-	-	0.150	6.306	1.905	274	-	-	274
DR	7,029	-	51,312,821	0.150	6.306	1.905	384,838	3,235,591	977,551	4,597,979
DR C	74	-	-	0.150	6.306	1.905	4,052	-	-	4,052
TOTAL DOMESTIC	18,658		126,447,644				1,021,526	7,973,306	2,408,929	11,403,761
GENERAL										
Specials										
U/Verandah Lights	126	-	45,990	0.086	-	\$0.033/day	3,974	-	1,504	5,477
Electric Fence	33	-	24,090	0.195	-	\$0.077/day	2,348	-	927	3,274
Lanark	1	-	-	\$260.00/mth	-	(\$303.42)/mth	3,120	-	(3,641)	(521)
Street Lights	27	-	1,969,726	-	7.065	1.905	-	139,164	37,525	176,689
Telecom - PCM 24 hour	78	-	341,640	\$27.282/mth	-	\$6.994/mth	25,536	-	6,547	32,083
Telecom - controlled	18	-	32,850	\$10.509/mth	-	\$2.904/mth	2,270	-	627	2,897
Total Specials	283		2,414,296				37,247	139,164	43,488	219,900
Capacity Groups										
N1U	417	-	2,556,081	1.122	4.106	1.905	170,808	104,948	48,695	324,451
N1R	684	-	3,035,034	1.172	4.222	1.905	292,715	128,138	57,820	478,673
N2U	695	-	11,343,042	1.326	3.664	1.905	336,416	415,610	216,094	968,120
N2R	1,810	-	24,464,191	1.428	3.906	1.905	943,173	955,485	466,063	2,364,720
N3U	237	-	7,173,788	1.734	3.664	1.905	150,006	262,848	136,666	549,520
N3R	196	-	7,071,497	1.938	3.906	1.905	138,646	276,188	134,718	549,551
N4U	66	-	3,299,002	2.243	3.664	1.905	54,044	120,876	62,849	237,769
N4R	45	-	2,508,399	2.550	3.906	1.905	41,882	97,969	47,787	187,638
N5U	48	158 kVA	3,521,012	1.663c/kVA/day	3.474	1.905	45,979	122,328	67,078	235,385
N5R	42	140 kVA	1,996,191	1.795c/kVA/day	3.779	1.905	38,420	75,438	38,029	151,888
UCC	13	-	-	(0.653)	-	-	(3,099)	-	-	(3,099)
RCC	137	-	-	(0.703)	-	-	(35,167)	-	-	(35,167)
Total Capacity Groups	4,390		66,968,238				2,173,823	2,559,826	1,275,799	6,009,448
Network Maximum Demand (NMD)										
NMD- Variable	99	-	34,785,794	-	0.936	1.905	-	325,763	662,697	988,461
NMD - Capacity	99	242 kVA	-	\$0.612/kVA/mth	-	-	176,124	-	-	176,124
NMD - Maximum Demand	99	133 kW	-	\$6.017/kW/mth	-	-	947,431	-	-	947,431
Total NMD	99		34,785,794				1,123,555	325,763	662,697	2,112,016
TOTAL GENERAL	4,772		104,168,328				3,334,626	3,024,754	1,981,984	8,341,364
TOTAL RETAIL	23,430		230,615,972				4,356,151	10,998,060	4,390,914	19,745,125
MAJORS - REGULATED		Total MD								
<i>Transpower Interconnection Rate</i>		\$60.45 kW								
Customers										
Fonterra (BoPE)	-	-	36,428,890	-	-	0.2970	-	-	108,194	108,194
SCA Hygiene (TP)	1	22,497	154,878,840	\$10,037.01/mth	-	0.0055	120,444	-	1,368,491	1,488,935
CHH Whakatane (TP)	1	20,000	107,800,385	\$14,426.98/mth	-	0.2425	173,124	-	1,470,436	1,643,560
Kaingaroa Timberlands (TP)	2	1,030	6,041,474	\$0.00/mth	-	0.2470	-	-	77,186	77,186
CHH - Kawerau (TP)	1	3,342	19,306,030	\$6,268.86/mth	-	0.0791	75,226	-	217,295	292,521
Norske Skog Oxidation Ponds (TP)	1	2,259	21,240,699	\$3,608.19/mth	-	0.0717	43,298	-	151,776	195,074
TG2 (BoPE)	1	-	3,168,825	\$730.00/mth	-	-	8,760	-	-	8,760
TOTAL MAJORS - REGULATED	7		348,865,144				420,852	-	3,393,378	3,814,230
GRAND TOTAL	23,437		579,481,116				4,777,004	10,998,060	7,784,291	23,559,355

Appendix C – SAIDI and SAIFI Statistics

SAIDI and SAIFI (Class B and Class C) for Years Ended 31 March 1999 – 2003 and the Year Ended 31 March 2008

Year	SAIDI (Interruption Duration)			SAIFI (Interruption Frequency)		
	Class B	Class C	Total	Class B	Class C	Total
1999	81.00	172.00	253.00	0.50	2.71	3.21
2000	49.00	72.00	121.00	0.36	1.54	1.90
2001	41.00	77.00	118.00	0.31	1.24	1.55
2002	35.00	179.00	214.00	0.22	1.43	1.65
2003	20.00	77.00	97.00	0.18	0.88	1.06
	Five Year Average SAIDI		160.60	Five Year Average SAIFI		1.87
2008	27.00	117.00	144.00	0.15	1.42	1.57

Appendix D – Outage Schedules

 HORIZON ENERGY DISTRIBUTION LIMITED		Switching Schedule Number	
Day:		Date:	
Times:			
Substation:			
Feeder:			
Reason for Switching:			
Area Affected:			
Customers Notified by:		Network Req#	
Arranged by		Checked by	Controlled by
SWITCHING SEQUENCE			
	1	1.	
	2		
	3		
	4		
	5		
	6		
	7		
	8		
	9		
	10		
	11		
	12		
	13		
	14		
	15		

