

5 July 2007

Commerce Act Review
Ministry of Economic Development
PO Box 1473
WELLINGTON

Dear Sir/Madam,

This submission is from Horizon Energy Distribution Limited. Horizon Energy owns and operates the electricity distribution system in the Eastern Bay of Plenty incorporating some 23,800 consumers and 2,400 km of distribution lines and cables. The Company is publicly listed on the New Zealand stock exchange.

Horizon Energy is pleased that the Ministry of Economic Development has instituted this review of Part 4A regulatory regime and welcomes the opportunity to provide this submission.

Our experience with the current regime is of concern to the Company. This stems from numerous factors including:

- significant delays in the resolution of outstanding threshold compliance breaches
- uncertainty as to the approach and treatment of breaches by the Commerce Commission
- continual development of the regime including significant delays and uncertainty of treatment of various critical aspects
- lack of, and continuity of, dedicated resources at the Commerce Commission
- constant and significant increases in costs of regulatory compliance
- investment disincentives both at a network level and at an industry consolidation level.

Horizon Energy supports two other submissions, one that was prepared by PricewaterhouseCoopers on behalf of Horizon Energy and 19 other electricity lines businesses and a second prepared on behalf of electricity lines businesses by the Electricity Networks Association. Both of these submissions provide broadly similar recommendations on the way in which the current regulatory regime could be modified to ensure that it provides the right signals for suppliers and consumers of electricity distribution services. In short both submissions support:

- a light handed regulatory regime for lines businesses where the owners' and consumers' footprints are the same
- a propose/respond model for lines businesses who either do not meet the requirements of the ownership/consumer footprint or elect the propose/respond model
- a fall back position of a thresholds regime

The Company supports this approach as it provides a pragmatic solution in the short to medium term where the large number of lines businesses makes it difficult to effect a regulatory regime that meets the needs of the different ownership structures and network of individual lines businesses.

However the problems that currently exist with the current regime are partly attributable to the large number of lines businesses operating in New Zealand. Twenty-eight line businesses in a country the size of New Zealand is far too many to allow most businesses to have an asset and operating base of a

sufficient scale. Industry consolidation is imperative to drive scale and efficiency, which will assist in providing improved price and quality outcomes for consumers and suppliers of distribution services. The achievement of efficiency gains is one of the key objectives of the Commerce Act Part 4A Purpose Statement.

Horizon Energy therefore encourages modifications to the regulatory regime that ensures that signals for industry consolidation are not obscured. In part this will be reflected in ensuring the regulatory regime recognises appropriate investment incentives. But importantly the regime must be structured in a manner that does not encourage the continuation of small scale lines businesses in the longer term.

I look forward to the outcomes of your review and would be please to discuss this submission further.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Dene Biddlecombe', with a long, sweeping horizontal stroke extending to the right.

Dene Biddlecombe
CHIEF EXECUTIVE
HORIZON ENERGY DISTRIBUTION LIMITED