

14 March 2018

Kiran Watkins
General Manager, Commercial and Technology
Horizon Energy Distribution Limited
52 Commerce Street
Whatkatane 3058

by email

Dear Kiran

Horizon Energy: 2018 Information Disclosure exemption request response

1. We refer to your letter of 7 March 2018 in which you requested the Commerce Commission (Commission) to grant an exemption to Horizon Energy Distribution Limited (Horizon) from part of the requirements of the Electricity Distribution Information Disclosure Determination 2012, as amended in December 2017 (ID Determination).

Background to the request

2. ID Determination amendments made in December 2017 relating to related party transactions come into effect starting 1 April 2018.
3. As part of the updated disclosure requirements, the Commission introduced a “de minimis” threshold that limits the need for disclosure requirements where suppliers have lower levels of total expenditure or a minimal proportion of related party transactions.¹
4. The “de minimis” threshold for limited disclosures apply when the supplier has:
 - 4.1 total annual expenditure of \$20 million or less; or
 - 4.2 under 10% of the total annual expenditure made up of related party transactions.
5. More specifically, clause 2.3.9(1) of the ID Determination states that an EDB is not required to comply with clauses 2.3.10-2.3.16 and 2.8.2-2.8.5 if the sum of capital

¹ As stated in para X17 and X18 of the “Related party transactions – Input Methodologies review final decision and determinations guidance”, available at <http://www.comcom.govt.nz/dmsdocument/16046>

expenditure (capex) and operational expenditure (opex) in the disclosure year is less than \$20 million.

6. You indicated in your letter that Horizon is in the process of entering into a conditional agreement to purchase certain transmission assets from Transpower with a settlement date of 1 July 2018.
7. The purchase of these transmission assets will increase the sum of Horizon's capex and opex over \$20 million for disclosure year 2019.
8. Horizon is forecasting to spend a total capex and opex of \$22.4 million in disclosure year 2019, of which \$6.2 million is attributed to purchase and maintenance of transmission assets from Transpower.

Exemptions requested

9. You indicated that without purchase and maintenance costs of transmission assets acquired from Transpower, Horizon's total capex and opex in disclosure year 2019 would be forecast at \$16.2 million, which is more consistent with Horizon's historic and forecast disclosures where the sum of capex and opex has been less than \$20 million.
10. You further advised that the purchase of the transmission assets from Transpower represents a transfer of assets from the Transpower regulatory asset base to the Horizon regulatory asset base, and does not represent any newly constructed assets.
11. You have requested that Horizon be granted an exemption for disclosure year 2019 from the requirements of clauses 2.3.10-2.3.16 and 2.8.2-2.8.5, so that it would put Horizon in the same place as not having exceeded the \$20 million threshold of annual total expenditure.

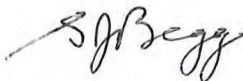
Exemptions granted

12. The Commission considers that the exemption requested by Horizon is reasonable given that:
 - 12.1 historic levels of Horizon's annual total expenditure have been below \$20 million and with the exception of disclosure year 2019, forecast total expenditure going forward is expected to be below \$20 million²;
 - 12.2 Horizon's 2019 capex and opex forecast of \$22.4 million is being pushed over the \$20 million threshold due to the one-off impact of the purchase of transmission assets from Transpower; and

² Per Horizon's Information Disclosures, annual total expenditure for disclosure years 2014-2017 has been \$16.8M, \$15.3M, \$16.1M and \$19M. As mentioned in para 9, without the costs associated with the purchase of the assets acquired from Transpower, forecast total expenditure for 2019 is \$16.4M.

- 12.3 the intention behind introducing the \$20 million threshold was to limit compliance costs based on the size of the supplier.³ The cost of having to comply with additional disclosure requirements where the threshold is exceeded only in one year will be inconsistent with the Commission's objective in setting the "de minimis" threshold.
13. Under clause 2.11.1 (1) of the ID Determination the Commission grants Horizon an exemption from the requirements under clauses 2.3.10-2.3.16 and 2.8.2-2.8.5 on the condition that Horizon notes that it has been granted this exemption when the disclosures are published.
14. This exemption only applies to disclosure year 2019.
- Further information*
15. This exemption may be revoked or amended in accordance with clause 2.11.1(2) of the ID Determination.
16. A copy of this exemption response letter will be published on the Commission's website.
17. For any further questions relating to this letter, please contact Vedika Sachan on (04) 924 3728 or vedika.sachan@comcom.govt.nz.

Yours sincerely



Sue Begg

Deputy Chair

³ As stated in para X17 of the "Related party transactions – Input Methodologies review final decision and determinations guidance", available at <http://www.comcom.govt.nz/dmsdocument/16046>