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13 September 2006

Michael Clark
Director
Networks Branch
Commerce Commission
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Dear Michael

Unison's Settlement Proposal

I am writing to advise the Commission of Unison's need to amend the 1 September settlement proposal that is currently under consideration by the Commerce Commission.

Unison's 1 September settlement proposal identified a target date of 1 October 2006 for the voluntary change to its tariffs to a level that would be compliant with the threshold price path and to achieve rebalancing between network regions and customer groups within those regions. It was also identified that to achieve these outcomes Unison would need to secure agreement from retailers to permit tariff changes outside the terms of Unison's use of system agreements i.e.: frequency of changes and required notice periods, and that this agreement had not yet been obtained.

To provide an update on these issues, discussions with retailers have confirmed that retailers understand the circumstances in which Unison is proposing a tariff change beyond the normal annual cycle and that Unison will still be able to change tariffs as at 1 April 2007. However, retailers have universally resisted the change with effect from 1 October 2006. This is because, unlike the April 2006 tariff changes for Rotorua and Taupo, which were all reductions, this change involves both tariff increases and decreases. In the case of tariff increases the retailers run into their own constraints from contracts or customer undertakings. Accordingly, the earliest date that can be agreed with retailers for Unison to implement the tariff changes is 1 December 2006.

Unison considers that it is important, in terms of securing agreement to any tariff change it wishes to implement, and for its ongoing commercial relationships, that the retailers' issues are appropriately taken into account. Accordingly, Unison does not wish to implement tariff changes (particularly price increases) that retailers might need to absorb as a result of having to abide by their own obligations in terms of notice periods to consumers.

Unison remains committed to its undertaking to voluntarily amend its tariff schedules in accordance with its settlement proposal, with the alteration of the effective date from 1 October to 1 December. Having determined the effective date for the changes, Unison now proposes to formally notify retailers of the changes and announce its intention via a press release in the next day or so. That announcement will then be followed up with correspondence to industrial and commercial customers that are adversely impacted and the necessary regulatory disclosures of tariff schedules etc.

If you wish to discuss this change or the settlement proposal in general, please contact me or Allan Carvell, General Manager Finance and Commercial.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Sutherland', with a stylized flourish at the end.

Ken Sutherland
Chief Executive