



18 October 2006

Michael Clark
Director
Networks Branch
Commerce Commission
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Dear Michael

UNISON'S SETTLEMENT PROPOSAL

Despite initial discussions with retailers, reaction to the formal notification of price changes provided to retailers following the Commerce Commission's announcement of 27 September 2006 of Unison's settlement offer has, in some instances, been unfavourable. As I previously indicated to you, this probably arises from a misapprehension on my part as to the degree of acceptance indicated by some retailers.

Subsequent discussions with TrustPower have indicated that they are not supportive of the tariff changes in the Rotorua and Taupo area as at 1 December 2006 necessary to implement Unison's settlement proposal. The reason provided for TrustPower's position is that price changes create churn in customer numbers and they strongly prefer that churn to be limited to the once in any twelve month instance provided for in the Use of System Agreement between them and Unison.

A compromise solution has been reached whereby the proposed changes to the tariffs that would have affected Rotorua and Taupo mass market consumers is to be deferred until 1 April 2007. This means that Unison will forego an annualised increase in revenues from Rotorua and Taupo mass market consumers of \$345,000 (as indicated in the settlement proposal). The annualised real rate of return for this customer group in the Rotorua and Taupo area will drop from an estimated 4.6% to 4.3%.

The actual effect on Unison's revenue, determined based on a four month deferral of the tariff increase of this customer class in Rotorua and Taupo, is \$115,000. To offset this impact, Unison is also amending the proposed reduction in tariffs for the large commercial customer group in Rotorua and Taupo. The impact of this offsetting adjustment is to increase the annualised real rate of return for this customer group in the Rotorua and Taupo area from an estimated 4.6% to 6.1%.

The offsetting adjustment to the proposed tariff movements is being made against the large commercial group because all other customer groups in the Rotorua and Taupo area are being increased. The impact on the large commercial group is a lesser reduction in tariffs effective 1 December 2006 and likely lesser increase in tariffs effective 1 April 2007 within the overall requirement for tariff changes to comply with the CPI-x threshold.

Unison will move to having fully implemented the rebalancing aspect of its settlement proposal by 1 April 2007. This will be demonstrated through the price methodology disclosures which are expected to show consistent rates of return between customer groups and between regions, in a manner consistent with tables 7.1 and 7.2 of Unison's settlement proposal.

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', written in a cursive style.

Ken Sutherland
Chief Executive