

6 May 2024

Mr Ajay Anand
Chief Executive
Horizon Energy Group
52 Commerce Street
Whakatane 3120

By email only:

Cc:

Dear Mr Anand

Horizon Energy Distribution Limited: compliance advice for misstatement in annual compliance statement for the 2022 assessment period

1. The Commerce Commission (**Commission**) has investigated Horizon Energy Distribution Limited (**Horizon**) for a misstatement in its annual compliance statement for the 2022 assessment period (**AP**). We have now completed our investigation and are writing to provide you with compliance advice.
2. In summary, in its annual price-setting compliance statement for AP 2024, Horizon informed us of a wash-up amount calculation error in its AP 2022 compliance statement. This error had no effect on charges to consumers due to Horizon noticing the error and correcting it prior to submitting the annual price-setting compliance statement for AP 2024. Having considered the relevant information, we consider that a compliance advice letter is the appropriate response.

Misstatement in the Annual Compliance Statement for AP 2022

3. On 16 March 2023, Horizon submitted its price-setting statement for AP 2024 and noted that the wash-up amount for AP 2022 differed from the published figure in the annual compliance statement for AP 2022, due to an error in the wash-up calculation. As a result, the wash-up amount was incorrectly stated to be \$561,000 when the correct figure was \$95,000 (**the error**). This error occurred because Horizon did not calculate actual allowable revenue (**AAR**) in accordance with Schedule 1.6 (3) of the *Electricity Distribution Services Default Price-Quality Path Determination 2020* [2019] NZCC 21 (as amended) (**DPP3**).

The investigation

4. On 2 October 2023, we opened an investigation into Horizon's potential contravention for AP 2022.
5. We requested Horizon provide its calculations and supporting information demonstrating the AAR reported in the annual compliance statement for AP 2022. We asked Horizon to explain the cause and circumstances of the misstatement.

Reasons for the error

6. Horizon explained that, as part of an internal investigation into the previously self-reported error with the AP 2023 price-setting compliance statement, it had engaged external auditors to review the price-setting compliance statement calculations for AP 2023, and the upcoming AP 2024. It was during this process that the auditors identified that Horizon had an incorrect input in the annual compliance statement for AP 2022.
7. Horizon had incorrectly calculated its AAR using the forecast net allowable revenue of \$24,378,000 instead of using actual net allowable revenue (ANAR) of \$25,179,000 as calculated in accordance with schedule 1.6 of DPP3. As a result, the wash-up amount was misstated as being \$466,000 higher than if Horizon had used the correct value for AAR.

Impact of the error

8. Horizon corrected the error prior to completing its annual price-setting compliance statement for AP 2024, and prices were not affected.
9. Horizon did not restate its annual compliance statement for AP 2022. It said that at the time the issue was identified, it discussed the error with its auditor who did not believe restatement was necessary because the error was corrected prior to setting prices and consumers were not impacted.

The Commission's view

10. As a result of our investigation, we have formed the view that Horizon's misstatement was a calculation error. This occurred when Horizon incorrectly calculated its AAR, which was identified by its external auditors while reviewing the price-setting compliance statement calculations.
11. While incorrect statements are a matter of concern to the Commission, in this instance there was no harm to consumers, and we have not identified evidence of systemic issues that would require an enforcement response higher than a compliance advice letter.

12. We note the following considerations in reaching our view:
- 12.1 Whilst we have taken enforcement action on three occasions previously when we considered Horizon had likely contravened its price-quality standards; we do not consider these issues to be related. Accordingly, we do not consider Horizon's past conduct to be an exacerbating factor on this occasion.
 - 12.2 We understand that Horizon has implemented improved quality assurance processes on the calculations within the compliance statements to mitigate the risk of future misstatements.

Further information

13. This letter is public information and will be published on our website.
14. Thank you for your assistance with this investigation. Please contact Jo Lipscombe by email at [REDACTED] if you have any questions about this matter.

Yours sincerely

[REDACTED]

Vhari McWha
Commissioner