

09 February 2021

Mr Ajay Anand
Chief Executive Officer
Horizon Energy Distribution Limited
Level 4, Commerce Plaza
52 Commerce Street
Whakatane 3120

By email only: [REDACTED]

Cc: [REDACTED]

Dear Mr Anand,

Horizon Energy Distribution Limited: Warning for contravention of the DPP quality standard in the 2018 assessment period

Purpose

1. The purpose of this letter is to advise you of our enforcement decision on the contravention by Horizon Energy Distribution Limited (**Horizon**) of the quality standard under the Electricity Distribution Services Default Price-Quality Path Determination 2015 (**DPP2**) in the assessment period ending 31 March 2018.
2. In summary, Horizon contravened the quality standard for the 2018 assessment period (**AP2018**), having exceeded the 'system average interruption duration index' (**SAIDI**) in AP2017 and AP2018. Having considered the information available, we consider that issuing Horizon with a warning letter is the appropriate response.

Quality standards under DPP2

3. Horizon is subject to the default price-quality path which sets quality standards to which it must adhere. Under DPP2, which ended on 31 March 2020, the quality standards were contravened where an Electricity Distribution Business (**EDB**) exceeded either its SAIDI or 'system average interruption frequency index' (**SAIFI**) reliability limit in two out of three years.
4. Horizon reported exceeding its SAIDI reliability limit in AP2017 and AP2018 and its SAIFI reliability in AP2018:

Year	Measure	Limit	Non-normalised	Normalised	% over Limit (normalised)
2017	SAIDI	176	230	219	24%
2018	SAIFI	2.21	3.85	2.99	35%
2018	SAIDI	176	1075	287	63%

The investigation

- The investigation considered Horizon’s publicly disclosed documents, Horizon’s response to the Commission’s request for information, Strata Energy Consulting Limited’s (**Strata’s**) quality non-compliance report (**the Expert Opinion**), and Horizon’s compliance history with the quality standards.

Information provided by Horizon

- During the investigation Horizon provided an explanatory report detailing its views of the reasons for its non-compliance, along with reports prepared by Southwest Consulting Group (reviewing Horizon’s replacement capital expenditure) and by NIWA (commenting on the correlation between adverse weather events and triggers and failures of network assets). Horizon also provided a response to specific information requests under notice. This information was considered by Strata when preparing its Expert Opinion and by the Commission when considering our enforcement response.
- The Commission (along with Strata) also conducted a three day on-site visit to Horizon which involved discussions with Horizon staff and contractors. We also undertook field visits and asset inspections to relevant areas of the network.
- Finally, we considered Horizon’s comments on Strata’s report as well as Strata’s response to Horizon’s comments.

The Expert Opinion

- In the Expert Opinion, Strata considered that generally, Horizon had good information about its network and assets, and it understood how its assets were performing. Overall, Strata found that the contravention, while potentially causing significant detriment, was primarily driven by factors external to and largely outside of Horizon’s control, namely defective equipment for AP2017 and adverse weather conditions for AP2018.
- However, Strata found that in two aspects, Horizon failed to meet the standard of good industry practice (**GIP**), the first of these being relevant to the contravention:
 - Galatea issue** – On 10 April 2016 (i.e during AP2017), an outage occurred on the Snake Hill feeder which supplies the Galatea area, including the township of Murupara. This outage affected 1,713 customers. Horizon suspected that the outage was due to lightning that damaged a surge arrestor. Strata agreed with Horizon that lightning was the most probable trigger for the outage but

considered that the extended duration and associated MED was due to the low reliability situation that had persisted on the Galatea region's network since at least 2011 as a result of Horizon failing to meet GIP.

- 10.2 **Post-event review issue** – While Strata considered that Horizon's practices around post event analysis were below GIP, it did not consider that the absence of these reviews was a contributing factor to the exceedance of the annual reliability limits in AP2017 and AP2018. However, Strata considered that large failure events present valuable opportunities for network managers to learn from. In its Expert Opinion, Strata noted that Horizon had provided evidence of several instances where it had conducted technical reviews and reporting following interruption instances. However, Strata considered that while these actions by Horizon were beneficial, they did not constitute comprehensive post-event reviews and as such, fell short of meeting GIP. In Strata's view, to meet GIP appropriate post-event reviews should always be undertaken after major faults.

Warning for contravening the quality standard

11. Informed by Strata's Expert Opinion, our view is that Horizon's failure to meet GIP by failing to address the Galatea issue with sufficient urgency played a concerning role in its contravention of the quality standards. In deciding its enforcement response, the Commission also had regard to Strata's Expert Opinion that the contravention was primarily driven by factors external to and largely outside of Horizon's control. The Commission also notes that Strata's Expert Opinion identified that Horizon failed to meet GIP by not conducting formal and rigorous post-event reviews, although this was not a contributory factor for the contravention so did not contribute to the enforcement decision.
12. We have decided to issue a warning letter to Horizon for the contravention. We note that, if Horizon contravenes a quality standard again in the future, this warning will be a relevant factor that may lead us towards a stronger enforcement response. Particularly relevant would be the extent to which the concerns of relevance to the contravention raised in this letter contributed to subsequent non-compliance.

Our core concern with Horizon's conduct

13. Informed by the Expert Opinion provided by Strata, our view is that Horizon's inaction in the years preceding the 10 April 2016 MED to remedy persistent reliability issues in the Galatea area were a concerning contributing factor to the contravention. Specifically, the 10 April 2016 MED contributed 20.1316 pre-normalised SAIDI minutes out of 230 total pre-normalised SAIDI minutes for AP2017.¹ While we acknowledge that Horizon would still have exceeded its SAIDI limits in AP2017 had the 10 April MED not occurred, in our view, Horizon's failure to take steps that could have mitigated the effects of the 10 April 2016 MED was sufficiently serious for the Commission to issue a Horizon with a warning letter.

¹ This was normalised to 10.77 SAIDI minutes.

14. The Commission is particularly concerned that consumers in the Galatea region experienced reduced reliability from at least 2011 until 2016. In our view, if the capital investments required to remedy the Galatea issue had been undertaken earlier, the impact of the 10 April 2016 event could have been mitigated. This highlights the seriousness of Horizon's conduct which led to the 10 April 2016 MED contributing significantly to Horizon's overall SAIDI exceedance in AP2017.
15. Although the Galatea issue has now been resolved, the Commission would be particularly concerned if similar such conduct contributed to a future non-compliance with the quality standards.

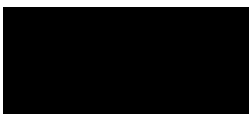
Penalties for contravening the quality standards

16. Where a non-exempt EDB has contravened the quality standards in a price-quality path, section 87 of the Commerce Act 1986 allows the court to impose a pecuniary penalty up to \$5,000,000. If the court imposes a penalty, then the Commission or affected persons may apply to the court for compensation under section 87A in respect of the loss or damage resulting from the contravention.

Further information

17. This letter is public information and will be published on our website. We may also make public comment about our investigations and conclusions, including issuing a media release, making comment to media, and publishing Strata's Expert Opinion on our website.
18. Thank you for your assistance with this investigation. Please contact Stephen Bass, Head of Compliance and Investigations, on [REDACTED] or by email at [REDACTED] if you have any questions about this matter.

Yours sincerely



Sue Begg
Deputy Chair