



T R A N S P O W E R

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Richard Fletcher
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6 September 2010

Alex Sim
Chief Adviser
Regulation Branch
Commerce Commission
PO Box 2351
WELLINGTON

Dear Alex

**Re: Revised process paper
Transpower individual price-quality regulation**

Transpower has reviewed the Commission's "Revised Process Paper which sets out the Commission's updated view on its process for setting an individual price-quality path (IPP) for Transpower New Zealand Limited.

We note that the "Revised Process Paper" proposes the following:

- a revised publication date for the s52P determination, which gives effect to the individual price-quality path for Transpower (IPP determination) – by 31 December 2010;
- a revised date for the IPP determination to take effect – 1 April 2011; and
- the Commission's initial views on the method for calculating Transpower's maximum allowable revenue (MAR) for the 2011/12 financial year (Transition Year).

Transpower agrees with the Commission's proposals, in relation to the first two bullet points above, but would like to make the following comments on the Commission's initial views on the method for calculating Transpower's maximum allowable revenue for the 2011/12 financial year.

For the reasons set out in our recent submissions we agree with the Commission's view that, due to timing issues, Transpower should calculate its MAR for the Transition Year based predominantly on the terms of the administrative settlement¹. However, the Commission has proposed that certain "limited modifications" will be required to ensure that the most material features of the draft IM determination and

¹ any differences in the calculation between the draft determinations and the final would be taken account of at the wash-up at the end of the Transition Year.

framework rules in the Input Methodologies (Transpower) Draft Reasons Paper (IM Reasons Paper) are taken into account. The Commission intends to issue its detailed requirements to Transpower by written notice under section 53ZD of the Act in September 2010.

In principle we agree with the Commission's proposal however we note that the Commission has not yet confirmed the extent of the required "limited modifications". Given that the process to determine the 2011/12 revenue requirement (and subsequent allocation to determine transmission charges) will commence in September, we would be concerned if any modifications required changes, at this stage in the process, to either our financial planning systems or underlying revenue setting methodologies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Fletcher', with a small dot at the end.

Richard Fletcher
Regulatory Strategy Manager

Clive Smith – Business Services Manager (Transpower)