



## ***INDEPENDENT ASSURANCE REPORT – REMAINDER PERIOD DRAFT FORECAST MARS***

To the Commissioners of the New Zealand Commerce Commission

We have been engaged to provide an independent assurance report on the draft forecast maximum allowable revenues (“draft forecast MARS”), calculated by Transpower New Zealand Limited (“Transpower”) in accordance with the Commerce Commissions requirements issued by notice in writing to Transpower under section 53ZD of the Commerce Act 1986 for Transpower’s pricing years in the period from 1 April 2012 to 31 March 2015 and dated 15 July 2011 (“the Notice”).

The draft forecast MAR for each pricing year comprises a combination of the forecast HVAC revenue and the forecast HVDC revenue calculated for each of the pricing years in accordance with the Notice.

### **Directors’ and Auditors’ Responsibilities**

Transpower’s directors are responsible for ensuring that the draft forecast MARS are calculated in accordance with the Notice and for such internal controls as the directors determine are necessary to ensure draft forecast MAR calculations are free from material misstatement.

We are qualified as an auditor as defined in the Notice. Our responsibility is to express an independent opinion on whether the draft forecast MAR calculations prepared by Transpower have been calculated in accordance with the Notice.

### **Basis of Opinion**

We conducted an assurance engagement in accordance with the Framework for Assurance Engagements and the International Standard on Assurance Engagements (New Zealand) 3000 (“ISAE (NZ) 3000”) issued by the New Zealand Institute of Chartered Accountants.

The objectives of an assurance engagement carried out under ISAE (NZ) 3000 are to:

- a. Obtain assurance about whether, in all material respects, an entity has complied with requirements contained in legislation, regulation, agreements, contracts or similar, or internally imposed standards, codes or practices; and
- b. Express a conclusion on that compliance in the form of an opinion.

The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether each draft forecast MAR as calculated is free from material misstatement.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the draft forecast MAR calculation when determining the nature and extent of our evidence-gathering procedures.



Our assurance engagement involves performing procedures to obtain appropriate evidence in respect of Transpower's draft forecast MAR calculations and the overall compliance with the Notice. The procedures selected depend on judgement, including the assessment of the risks of material misstatement, whether due to fraud, error or other reasons. In evaluating those risks we consider the internal controls that are relevant to Transpower's calculation of the draft forecast MARs in order to design assurance procedures that are appropriate in the circumstances. We do not express an opinion on the effectiveness of Transpower's internal controls.

Our assurance procedures include evaluating the appropriateness of the calculations used in the context of the overall compliance with the Notice. These procedures assist us to establish that, during the course of the engagement, nothing has come to our attention that would suggest the estimates used in the draft forecast MAR calculations are not reasonable.

In relation to the Notice, our assurance procedures included examination, on a test basis, of evidence relevant to each of the building blocks in the calculation of Transpower's draft forecast MARs and the calculation of the associated forecast HVAC revenue and forecast HVDC revenue applicable to each draft forecast MAR. Specifically, our assurance procedures included examining, on a test basis, evidence to support the calculation of the forecast HVAC revenue, forecast HVDC revenue and overall draft forecast MAR calculation for each Transpower pricing year in the period, examination of internally and externally generated documents and records relevant to the calculations, interviewing selected personnel and such other procedures as we considered necessary.

These procedures included:

- a. Reviewing the principles used in the forecast HVAC revenue and forecast HVDC revenue and overall draft forecast MAR calculations, and confirming that these are in accordance with the requirements set out in the Notice;
- b. Testing whether the calculations are mathematically correct;
- c. Identifying key inputs to the calculations and reconciling or agreeing them to source documents and systems; and
- d. Confirming that the capital expenditure included within the forecast regulatory asset base (RAB) for the purposes of any applicable calculations is consistent with amounts approved by the Electricity Commission or Commerce Commission, as applicable.

In performing the procedures noted above, we have placed reliance on Transpower's underlying systems and business records from which inputs were sourced for the calculations.

### **Relationship and Interests**

We have no relationship with or interests in Transpower New Zealand Limited other than in our capacities as auditors of the threshold compliance statement, as advisors in the areas of taxation compliance, in the provision of the independent report on the remainder period draft forecast MARs and in the provision of other assurance, taxation and professional advisory services. We are not aware of any relationships between our firm and Transpower New Zealand Limited that, in our professional judgment, may reasonably be thought to impair our independence.



## Opinion

In our opinion:

- (1) The recorded evidence and explanations we have obtained are sufficient and appropriate to provide a basis for our independent opinion on Transpower's compliance with the Notice;
- (2) Where relevant, the information used in the draft forecast MAR calculations has been properly extracted from Transpower's accounting records, sourced from its financial systems;
- (3) Where relevant, the inputs to the calculation of the draft forecast MARs have been prepared in a manner consistent with the principles of Generally Accepted Accounting Practice (GAAP); and
- (4) The draft forecast MARs calculated by Transpower for the pricing years in the period from 1 April 2012 to 31 March 2015 and dated 14 October 2011, have been calculated, in all material respects, in accordance with the Notice.

Our assurance engagement was completed on 14 October 2011 and our opinion is expressed as at that date.

*PriceWaterhouseCoopers*

PriceWaterhouseCoopers  
Wellington  
14 October 2011



**Appendix A: Transpower New Zealand Limited's Remainder Period Draft Forecast  
Mars**

	<b>2013 \$M</b>	<b>2014 \$M</b>	<b>2015 \$M</b>
Forecast MAR	783.3	905.9	958.4