Notice to Supply Information to the Commerce Commission
Section 53ZD of the Commerce Act 1986

To: Transpower New Zealand Limited
PO Box 1021
WELLINGTON

For the purpose of carrying out its functions and exercising its powers under Part 4 of the Commerce Act 1986 (the Act), the Commerce Commission (Commission) requires, under sections 53ZD(d) and 53ZD(f) of the Act, that Transpower New Zealand Limited (Transpower) provides the Commission with the information specified in this notice.

This notice is issued in accordance with clause 3.3(2) of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 (IPP Determination). The information required by this notice is for the purpose of the Commission's setting of Transpower's forecast maximum allowable revenues (forecast MARs) under the Transpower individual price-quality path for the pricing years in the period from 1 April 2012 to 31 March 2015.

INTERPRETATION

In this notice, unless the context otherwise requires, words bear the following meanings:

Act means the Commerce Act 1986;

approved major capital expenditure means **major capital expenditure** approved by the **Commission** or by the Electricity Commission;

auditor means a person who-

a. is qualified for appointment as auditor of a company under the Companies Act 1993; and

b. has no relationship with, or interest in, **Transpower** that is likely to involve the person in a conflict of interest; and

c. has not assisted with the preparation of the information required under this notice or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing that information;

d. has the necessary expertise to properly provide an **independent assurance report** as required by this notice; and

e. need not be the same person as the person who audits the financial accounts of **Transpower** for any other purpose;

capital expenditure has the meaning set out in the **IM Determination;**

closing RAB value has the meaning set out in the **IM Determination**;

Commission means the Commerce Commission;

commissioned has the meaning set out in the **IM Determination**;

corporate tax rate has the meaning set out in the **IM Determination**;

depreciation has the meaning set out in the **IM Determination**;

Directors' Certificate means a certificate issued by two directors of **Transpower** in respect of **Transpower's** draft **forecast MARs** for the **pricing years** in the **remainder period** in the form specified at Appendix 6 of this notice;

disclosure year has the meaning set out in the **IPP Determination**;

electricity transmission services has the meaning set out in the **IPP Determination**;

engineer has the meaning set out in the **IM Determination**;

ex-post economic gain or loss has the meaning set out in the **IPP Determination**;

EV account has the meaning set out in the **IPP Determination**;

EV adjustment has the meaning set out in the **IPP Determination**;

forecast HVAC revenue means a forecast of the **HVAC revenue** for a **pricing year** prepared on a basis consistent with the calculation of the **forecast MAR** for that **pricing year**;

forecast HVDC revenue means a forecast of the **HVDC revenue** for a **pricing year** prepared on a basis consistent with the calculation of the **forecast MAR** for that **pricing year**;

forecast MAR has the meaning set out in the **IPP Determination**;

forecast MAR calculation model has the meaning set out in the **IPP Determination**;

GAAP has the meaning set out in the **IM Determination**;

HVAC means high voltage alternating current;

HVAC EV account means the account maintained by **Transpower** to record allocated **ex-post economic gains or losses** accrued but not yet returned to or recovered from **Transpower's HVAC** customers;

HVAC revenue has the meaning as set out in the **IPP Determination**;

HVDC means high voltage direct current;

HVDC EV account means the account maintained by **Transpower** to record allocated **ex-post economic gains or losses** accrued but not yet returned to or recovered from Transpower's **HVDC** customers;

HVDC revenue has the meaning set out in the **IPP Determination**;

IM Determination means the Commerce Act (Transpower Input Methodologies) Determination 2010 that the **Commission** issued on 22 December 2010;

independent assurance report means a report in respect of **Transpower's** draft **forecast MARs** for **Transpower's pricing years** in the **remainder period**, in the form specified at Appendix 7 of this notice, issued by a person or firm that is qualified to be an **auditor**;

IPP Determination means the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010, that the **Commission** issued on 22 December 2010, and any amendment issued by the **Commission**;

major capital expenditure has the meaning set out in the **IPP Determination**;

minor capital expenditure has the meaning set out in the **IPP Determination**;

opening EV account balances has the meaning set out in the **IPP Determination**;

operating expenditure has the meaning set out in the **IPP Determination**;

operating expenditure allowance has the meaning set out in the **IPP Determination**;

opening RAB value has the meaning set out in the **IM Determination**;

pass-through costs has the meaning set out in the **IM Determination**;

physical asset life has the meaning set out in the **IM Determination**;

pricing year has the meaning set out in the **IPP Determination**;

pseudo asset means a value as defined in Clause 3 of Schedule 1 of the **thresholds notice** that is included in the **opening RAB value** for the **transition year**;

RAB means the regulatory asset base as defined in Schedule 1, Clause 3 of the **thresholds notice**;

RCP1 has the meaning set out in the **IM Determination**;

recoverable costs has the meaning set out in the **IM Determination**;

reduced life asset means an asset determined by **Transpower** to have a physical service life potential shorter than its **standard physical asset life**;

relevant pricing year has the meaning set out in the **IPP Determination**;

remainder period means the period from 1 April 2012 to 31 March 2015;

remaining asset life has the meaning set out in the **IM Determination**;

standard physical asset life has the meaning set out in the **IM Determination**;

tax rules has the meaning set out in the **IM determination**;

term credit spread differential allowance has the meaning set out in the **IPP Determination**;

Thresholds Notice means the Commerce Act (Transpower Thresholds) Notice 2008;

transition year has the meaning set out in the **IPP determination**;

TPM has the meaning set out in the **IPP determination**;

Transpower means Transpower New Zealand Limited;

unallocated depreciation has the meaning set out in the **IM Determination**;

value of commissioned asset has the meaning set out in the **IM Determination**; and

WACC has the meaning set out in the **IPP Determination**.

REQUIREMENTS

Methodology for calculating each draft forecast MAR

1. Transpower must prepare a draft forecast MAR for each pricing year relating to the disclosure years in the remainder period for RCP1, applying the formulae identified in Appendix 1 to this notice.

2. Transpower must make forecasts of amounts and carry out necessary calculations in accordance with this notice. In order to carry out the calculations, Transpower must follow the steps set out in Appendix 1, adopt the input methodologies as detailed in Appendix 2, and apply the necessary modifications to the input methodologies as detailed in Appendix 2.

3. Transpower must use the values specified in Appendix 3 in the calculation of forecast MARs.

4. The draft forecast MAR calculations must be presented by Transpower in the summary format set out in Appendix 4.

Expert Opinions and Supporting Information

5. Transpower must provide the Commission with the expert opinions and supporting information set out in Appendix 5 of this notice.

References

If Transpower uses any reference material other than that specified in this notice in its draft forecast MAR calculations, it must provide the Commission with a list of such reference material and must make that material available to the Commission on request.

Format

The information requested in this notice should be provided, to the maximum extent possible, in electronic form in MS Word or MS Excel. The Commission intends to publish on its website the Directors' Certificate, the independent assurance report and the remainder period draft forecast MAR calculation summary.

A summary index schedule should be provided to indicate the content of each file.

Date and Place of Response

Transpower must supply the specified information to the Commission's Wellington office at 44 The Terrace, Wellington (Attention: Alex Sim) by no later than 5pm on 21 October 2011.

Transpower must provide the information requested under cover of a letter on its company letterhead, signed by a person with the appropriate authority.

Dated at Wellington: 15 July 2011

Signed by:

Mark Berry

Dr Mark Berry
Commission Chair

APPENDIX 1: DRAFT FORECAST MAR FORMULA

FORECAST MAR BUILDING BLOCK	FORMULA	INPUTS TO FORECAST MAR FORMULA
Forecast opening RAB	FM1	Forecast opening RAB value, calculated for each disclosure year in accordance with Section A of Appendix 2.
Average of forecast commissioned value of approved capital expenditure	FM2	Half of forecast commissioned value of approved capital expenditure, calculated for each disclosure year in accordance with Section B of Appendix 2.
Average RAB	Formula A = FM1 + FM2	(This is Formula A in Schedule D of the IPP Determination)
WACC	Formula B	WACC, for every disclosure year in the remainder period, as specified in Appendix 3, Item 8. (This is Formula B in Schedule D of the IPP Determination.)
Capital charge	Formula C = Formula A x Formula B	Average RAB multiplied by WACC, as specified for each disclosure year in accordance with Section C of Appendix 2. (This is Formula C in Schedule D of the IPP Determination)
Term credit spread differential	Formula D	Forecast term credit spread differential allowance, calculated for each disclosure year in accordance with Section D of Appendix 2. (This is Formula D in Schedule D of the IPP Determination)
Operating expenditure	Formula E	Operating expenditure allowance for each disclosure year, as specified in Appendix 3, Items 1 to 3. (This is Formula E in Schedule D of the IPP Determination)
Depreciation	Formula F	Forecast depreciation, calculated for each disclosure year in accordance with Section E of Appendix 2. (This is Formula F in Schedule D of the IPP Determination)
Tax	Formula G	Forecast regulatory tax allowance, calculated for each disclosure year in accordance with Section F of Appendix 2. (This is Formula G in Schedule D of the IPP Determination.)
EV adjustment	Formula H	EV adjustment, calculated for each disclosure year in accordance with Section G of Appendix 2. (This is Formula H in Schedule D of the IPP Determination)
FORECAST MAR	Formula I = Formula C + Formula D + Formula E + Formula F + Formula G + Formula H	This is the forecast MAR as specified in this notice. (This is Formula I in Schedule D of the IPP Determination)

Pass-through costs	Formula J	Forecast pass-through costs calculated for each disclosure year in accordance with Section H of Appendix 2. (This is Formula J in Schedule D of the IPP Determination)
Recoverable costs	Formula K	Forecast recoverable costs calculated for each disclosure year in accordance with Section I of Appendix 2. (This is Formula K in Schedule D of the IPP Determination)
FORECAST REVENUE	Formula L = Formula I + Formula J + Formula K	This is the total forecast revenue proposed to be used by Transpower for the purpose of setting charges under the TPM. It is the total revenue to be used by Transpower to demonstrate compliance with the price path. (This is Formula L in Schedule D of the IPP Determination)

APPENDIX 2: APPLYING THE IM DETERMINATION AND IPP DETERMINATION TO THE DRAFT FORECAST MARS

Explanatory Note

This Appendix 2 sets out the necessary calculations and relevant input methodologies that need to be applied, with necessary modifications, in order to calculate the forecast MAR in accordance with Appendix 1 for each disclosure year in the Remainder Period.

SPECIFIED FORECAST VALUE	THE FORECAST MAR BUILDING BLOCK WHERE IT IS USED	HOW IPP AND IM DETERMINATIONS ARE TO BE APPLIED TO FORECASTS	VALUE CALCULATED BY TRANSPOWER[1]
Section A: Calculating the forecast average RAB			
(1) The opening RAB value for the disclosure year ending 30 June 2012 (transition year).	Used to calculate the forecast average RAB (Formula A)[2] for disclosure years in the remainder period. The forecast average RAB is used to calculate the forecast capital charge (Formula C) and the forecast depreciation (Formula F) building blocks.	The opening RAB value for the disclosure year ending 30 June 2012 is specified in clause 2.2.3(3) of the IM Determination. The opening RAB value may not include any amounts relating to operating leases that were capitalised to the RAB under the terms of the thresholds notice in assessment years prior to the first disclosure year of RCP1.	
(2) Forecast opening RAB value for the disclosure year ending 30 June 2013		The forecast opening RAB value for the disclosure year ending 30 June 2013 is the forecast closing RAB value for the disclosure year ending on 30 June 2012, calculated as if clauses 2.2.3 and 3.3.1 of the IM Determination had applied at all times for that earlier disclosure year, including any necessary modifications set out in Section A(7) to (11) below of this Appendix.	
(3) Forecast closing RAB value for the disclosure year ending 30 June 2013	Used to calculate the forecast average RAB (Formula A) for the following disclosure year.	The forecast closing RAB value for the disclosure year ending 30 June 2013 is calculated in accordance with the forecast opening RAB value under Section A(2) above of this Appendix and clauses 2.2.3(4) and 3.3.1 of the IM Determination, including any necessary modifications set out in Section A(7) to (11) below of this Appendix.	

[1] Reported values are to be rounded to the nearest $100,000 and are to be expressed as $X.XM.

[2] Unless specified otherwise, all references to formulae in this Appendix 2 (such as "Formula A") are to those formulae set out in Appendix 1 of this Notice.

(4) Forecast opening RAB value for the disclosure year ending 30 June 2014	Used to calculate the forecast average RAB (Formula A) for the disclosure year. The forecast average RAB is used to calculate the forecast capital charge (Formula C) and the forecast depreciation (Formula F) building blocks.	The forecast opening RAB value for the disclosure year is the forecast closing RAB value calculated under Section A(3) above of this Appendix.	
(5) Forecast closing RAB value for the disclosure year ending 30 June 2014	Used to calculate the forecast average RAB (Formula A) for the following disclosure year.	The forecast closing RAB value for the disclosure year ending 30 June 2014 is calculated in accordance with clauses 2.2.3(4) and 3.3.1 of the IM Determination and applying the forecast opening RAB value calculated under Section A(4) above of this Appendix, and including any necessary modifications noted in Sections A(7) to (11) below of this Appendix.	
(6) Forecast opening RAB value for the disclosure year ending 30 June 2015	Used to calculate the forecast average RAB (Formula A) for the disclosure year. The forecast average RAB is used to calculate the forecast capital charge (Formula C) and the forecast depreciation (Formula F) building blocks.	The forecast opening RAB value for the disclosure year is the forecast closing RAB value calculated under Section A(5) above of this Appendix.	
(7) 'Necessary modification' to asset valuation input methodology to calculate the forecast closing RAB value for each disclosure year	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	In accordance with clause 2.2.6(1)(h) of the IM determination, a weighted average remaining asset life may be applied for the purposes of clause 2.2.4 of the IM Determination where forecast capital expenditure on a project that is forecast to be commissioned during the disclosure year comprises a combination of asset descriptions and where the mix of the forecast capital expenditure within the project is required to be estimated.	No value required to be disclosed (methodology only)
(8) 'Necessary modification' to asset valuation input methodology to calculate the forecast closing RAB value for each disclosure year		For forecast capital expenditure that does not fall under any asset description in Schedule A of the IM Determination, the physical asset life for the purposes of calculating forecast depreciation is set in accordance with clause 2.2.6 of the IM Determination.	No value required to be disclosed (methodology only)
(9) 'Necessary modification' to asset valuation input methodology to calculate the forecast closing RAB value for each disclosure year		Forecast dismantling costs that are not included in the opening RAB value for the disclosure year ending 30 June 2012 may be included in forecast depreciation for each disclosure year that the expenditure on such dismantling costs is forecast to be incurred.	No value required to be disclosed (value is included in the depreciation for each disclosure year)

(10) 'Necessary modification' to asset valuation input methodology to calculate the forecast closing RAB value for each disclosure year	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast closing RAB value is calculated taking into account forecast disposed assets in accordance with clauses 2.2.3(2) and 3.3.1 of the IM Determination.	No value required to be disclosed (methodology only)
(11) 'Necessary modification' to asset valuation input methodology to calculate the forecast closing RAB value for each disclosure year		The forecast depreciation for the purpose of calculating the closing RAB value is calculated taking into account forecast depreciation on 'pseudo assets' as defined under the Thresholds Notice, with the forecast depreciation for each disclosure year to include the amount specified in Appendix 3, Item 7.	No value required to be disclosed (value is included in the depreciation for each disclosure year)

Section B: Calculating the forecast commissioned value of approved capital expenditure			
(1) Total forecast value of commissioned assets for the disclosure year ending 30 June 2013	The forecast value of commissioned assets (Formula FM2) is used to calculate the forecast average RAB (Formula A) for the disclosure year.	The forecast value of commissioned assets is calculated by applying GAAP to each asset in accordance with clause 2.2.7 of the IM Determination and then applying the cost allocation process in accordance with clause 2.1.1 of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this notice to allow values to be calculated on a forecast basis. For this purpose, minor capital expenditure is limited to not more than the minor capital expenditure allowance for each disclosure year as specified in Appendix 3, Items 4 to 6. Forecast capital expenditure on system operator tool upgrades is allocated to system operator services.	
(2) Total forecast value of commissioned assets for the disclosure year ending 30 June 2014			
(3) Total forecast value of commissioned assets for the disclosure year ending 30 June 2015			

<table>
<tr><th colspan="4">Section C: Calculating the forecast capital charge</th></tr>
<tr><td>(1) Forecast capital charge for the disclosure year ending 30 June 2013</td><td rowspan="3">The forecast capital charge (Formula C) is a forecast MAR building block that is calculated for the disclosure year as the product of the forecast average RAB (Formula A) and the WACC (Formula B) for the disclosure year.</td><td rowspan="3">The forecast capital charge is specified by Formula C of Schedule D of the IPP Determination. It is to be calculated by multiplying the result of Formula A by the result of Formula B of Schedule D of the IPP Determination. The formula does not require any necessary modifications to allow values to be calculated on a forecast basis.</td><td></td></tr>
<tr><td>(2) Forecast capital charge for the disclosure year ending 30 June 2014</td><td></td></tr>
<tr><td>(3) Forecast capital charge for the disclosure year ending 30 June 2015</td><td></td></tr>
</table>

<table>
<tr><th colspan="4">Section D: Calculating the forecast term credit spread differential allowance</th></tr>
<tr><td>(1) Term credit spread differential for the disclosure year ending 30 June 2013</td><td rowspan="3">The forecast term credit spread differential allowance for the disclosure year (Formula D) is a forecast MAR building block.</td><td rowspan="3">The forecast term credit spread differential allowance, if applicable to the disclosure year, is to be estimated in accordance with Part 3 Subpart 5 of the IM Determination, with 'qualifying supplier' in clause 3.5.10 of the IM Determination being taken to refer to Transpower, and with necessary modifications to allow values to be calculated on a forecast basis.</td><td></td></tr>
<tr><td>(2) Term credit spread differential for the disclosure year ending 30 June 2014</td><td></td></tr>
<tr><td>(3) Term credit spread differential for the disclosure year ending 30 June 2015</td><td></td></tr>
</table>

Section E: Calculating the forecast depreciation			
(1) Forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year ending 30 June 2012	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year is the amount calculated in accordance with clauses 2.2.4 and 3.3.1 of the IM Determination.	
(2) Forecast depreciation for the disclosure year ending 30 June 2012	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast depreciation for the disclosure year is the amount calculated in accordance with clauses 2.1.1, 2.2.4 and 3.3.1 of the IM Determination and including the necessary modifications set out in Section E(9) to (13) below of this Appendix.	
(3) Forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year ending 30 June 2013	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year is the amount calculated in accordance with clauses 2.2.4 and 3.3.1 of the IM Determination.	
(4) Forecast depreciation for the disclosure year ending 30 June 2013	The forecast depreciation for the disclosure year (Formula F) is a forecast MAR building block.	The forecast depreciation for the disclosure year is the amount calculated in accordance with clauses 2.1.1, 2.2.4 and 3.3.1 of the IM Determination and including the necessary modifications set out in Section E(9) to (13) below of this Appendix.	
(5) Forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year ending 30 June 2014	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year is the amount calculated in accordance with clauses 2.2.4 and 3.3.1 of the IM Determination.	
(6) Forecast depreciation for the disclosure year ending 30 June 2014	The forecast depreciation for the disclosure year (Formula F) is a forecast MAR building block.	The forecast depreciation for the disclosure year is the amount calculated in accordance with clauses 2.1.1, 2.2.4 and 3.3.1 of the IM Determination and including the necessary modifications set out in Section E(9) to (13) below of this Appendix.	

(7) Forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year ending 30 June 2015	Used to calculate the forecast opening RAB value (Formula FM1) for the following disclosure year.	The forecast unallocated depreciation for the purposes of calculating the forecast closing RAB value for the disclosure year is the amount calculated in accordance with clauses 2.2.4 and 3.3.1 of the IM Determination.	
(8) Forecast depreciation for the disclosure year ending 30 June 2015	The forecast depreciation for the disclosure year (Formula F) is a forecast MAR building block.	The forecast depreciation for the disclosure year is the amount calculated in accordance with clauses 2.1.1, 2.2.4 and 3.3.1 of the IM Determination and including the necessary modifications set out in Section E(9) to (13) below of this Appendix.	
(9) 'Necessary modification' to asset valuation input methodology to calculate the forecast depreciation for each disclosure year	Used to calculate the forecast depreciation (Formula F) for the disclosure year.	In accordance with clause 2.2.6(1)(h) of the IM determination, a weighted average remaining asset life may be applied for the purposes of clause 2.2.4 of the IM Determination where forecast capital expenditure on a project that is forecast to be commissioned during the disclosure year comprises a combination of asset descriptions and where the mix of the forecast capital expenditure within the project is required to be estimated.	No value required to be separately disclosed
(10) 'Necessary modification' to asset valuation input methodology to calculate the forecast depreciation for each disclosure year		For forecast capital expenditure that does not fall under any asset description in Schedule A of the IM Determination, the physical asset life for the purposes of calculating forecast depreciation is to be set in accordance with clause 2.2.6 of the IM Determination.	No value required to be separately disclosed
(11) 'Necessary modification' to asset valuation input methodology to calculate the forecast depreciation for each disclosure year		Forecast dismantling costs that they are not included in the opening RAB value for the disclosure year ending 30 June 2012 may be included in forecast depreciation for the year that expenditure on such dismantling costs is forecast to be incurred.	No value required to be separately disclosed
(12) 'Necessary modification' to asset valuation input methodology to calculate the forecast depreciation for each disclosure year		The forecast depreciation is calculated taking into account forecast disposed assets in accordance with clauses 2.2.3(2), 2.2.4(3)(b) and 3.3.1 of the IM Determination.	No value required to be separately disclosed

(13) 'Necessary modification' to asset valuation input methodology to calculate the forecast depreciation for each disclosure year	Used to calculate the forecast depreciation (Formula F) for the disclosure year.	The forecast depreciation is calculated taking into account forecast depreciation on 'pseudo assets' as defined under the Thresholds Notice, with the forecast depreciation for each disclosure year to include the amount specified in Appendix 3, Item 7.	No value required to be separately disclosed

Section F: Calculating the forecast regulatory tax allowance			
(1) Forecast tax calculation for disclosure year ending 30 June 2013	The forecast regulatory tax allowance (Formula G) for the disclosure year is a forecast MAR building block.	The forecast regulatory tax allowance for the disclosure year is to be calculated in accordance with clause 3.4.1 of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice. In particular, the corporate tax rate is applied in accordance with Appendix 3, Item 10 and the regulatory profit/loss before tax is calculated in accordance with Section F(2) below of this Appendix.	
(2) Forecast regulatory profit/loss before tax under the tax rules for the disclosure year ending 30 June 2013	The forecast regulatory tax allowance (Formula FM9) is calculated by applying the corporate tax rate to the forecast regulatory profit/loss before tax calculated under the tax rules .	The phrases 'as specified by the Commission' in clause 3.4.1(2) of the IM Determination and 'in accordance with an ID determination' in clause 2.3.1(2) of the IM Determination mean that, unless specified otherwise in this Appendix, the forecast 'regulatory profit/loss before tax' under the tax rules is to be calculated in accordance with clause 2.3.1(3) of the IM Determination using forecast values that are consistent with forecast values used in other forecast MAR building blocks.	
(3) Forecast tax deductible operating expenditure for the disclosure year ending 30 June 2013	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account the tax deductible operating expenditure.	The forecast 'regulatory profit/loss before tax' under the tax rules for the disclosure year is to be calculated using Transpower's total forecast operating expenditure allocated to activities undertaken by Transpower to supply electricity transmission services for the disclosure year that would be tax deductible under the tax rules.	

(4) Forecast notional interest deduction for the disclosure year ending 30 June 2013	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a notional deduction for tax deductible interest.	The forecast 'notional deductible interest' for the disclosure year under clause 2.3.1(3)(a) of the IM Determination is to be calculated in accordance with clauses 2.3.1(4) of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	
(5) Forecast tax depreciation deduction for the disclosure year ending 30 June 2013	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a deduction for depreciation calculated under the tax rules.	The forecast tax deduction for depreciation for the disclosure year under clause 2.3.1(3)(b) of the IM Determination is to be calculated in accordance with clause 2.3.1(3)(b) of the IM Determination and the forecast regulatory tax asset value calculated in accordance with clause 2.3.2 of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	
(6) Forecast tax calculation for disclosure year ending 30 June 2014	The forecast regulatory tax allowance (Formula G) for the disclosure year is a forecast MAR building block.	The forecast regulatory tax allowance for the disclosure year is to be calculated in accordance with clauses 3.4.1of the IM determination with necessary modifications as determined and disclosed by Transpower in accordance with this Notice. In particular, the corporate tax rate is applied in accordance with Appendix 3, Item 10 and the regulatory profit/loss before tax is calculated in accordance with Section F(7) below of this Appendix.	
(7) Forecast regulatory profit/loss before tax under the tax rules for the disclosure year ending 30 June 2014	The forecast regulatory tax allowance (Formula G) is calculated by applying the corporate tax rate to the forecast regulatory profit/loss before tax calculated under the tax rules .	The phrases 'as specified by the Commission' in clause 3.4.1(2) of the IM Determination and 'in accordance with an ID determination in clause 2.3.1(2) of the IM Determination mean that, unless specified otherwise in this Appendix, the forecast 'regulatory profit/loss before tax' under the tax rules is to be calculated in accordance with clauses 2.3.1(3) of the IM Determination using forecast values that are consistent with forecast values used in other forecast MAR building blocks.	

(8) Forecast tax deductible operating expenditure for the disclosure year ending 30 June 2014	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account the tax deductible operating expenditure.	The forecast 'regulatory profit/loss before tax' under the tax rules for the disclosure year is to be calculated using Transpower's total forecast operating expenditure allocated to activities undertaken by Transpower to supply electricity transmission services for the disclosure year that would be tax deductible under the tax rules.	
(9) Forecast notional interest deduction for the disclosure year ending 30 June 2014	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a notional deduction for tax deductible interest.	The forecast 'notional deductible interest' for the disclosure year under clause 2.3.1(3)(a) of the IM Determination is to be calculated in accordance with clauses 2.3.1(4) and 2.4.1(4) of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	
(10) Forecast tax depreciation deduction for the disclosure year ending 30 June 2014	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a deduction for depreciation calculated under the tax rules.	The forecast tax deduction for depreciation for the disclosure year under clause 2.3.1(3)(b) of the IM Determination is to be calculated in accordance with clause 2.3.1(3)(b) of the IM Determination and the forecast regulatory tax asset value calculated in accordance with clause 2.3.2 of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	
(11) Forecast tax calculation for the disclosure year ending 30 June 2015	The forecast regulatory tax allowance (Formula G) for the disclosure year is a forecast MAR building block.	The forecast regulatory tax allowance for the disclosure year is to be calculated in accordance with clauses 3.4.1 and Subpart 3 of Part 2 of the IM Determination with necessary modifications as determined and disclosed by Transpower in accordance with this Notice. In particular, the corporate tax rate is applied in accordance with Appendix 3, Item 10 and the regulatory profit/loss before tax is calculated in accordance with Section F(12) below of this Appendix.	

(12) Forecast regulatory profit/loss before tax under the tax rules for the disclosure year ending 30 June 2015	The forecast regulatory tax allowance (Formula G) is calculated by applying the corporate tax rate to the forecast regulatory profit/loss before tax calculated under the tax rules.	The phrases 'as specified by the Commission' in clause 3.4.1(2) of the IM Determination and 'in accordance with an ID determination in clause 2.3.1(2) of the IM Determination mean that, unless specified otherwise in this Appendix, the forecast 'regulatory profit/loss before tax' under the tax rules is to be calculated in accordance with clause 2.3.1(3) of the IM Determination using forecast values that are consistent with forecast values used in other forecast MAR building blocks.	
(13) Forecast tax deductible operating expenditure for the disclosure year ending 30 June 2015	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account the tax deductible operating expenditure.	The forecast 'regulatory profit/loss before tax' under the tax rules for the disclosure year is to be calculated using Transpower's total forecast operating expenditure allocated to activities undertaken by Transpower to supply electricity transmission services for the disclosure year that would be tax deductible under the tax rules.	
(14) Forecast notional interest deduction for the disclosure year ending 30 June 2015	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a notional deduction for tax deductible interest.	The forecast 'notional deductible interest' for the disclosure year under clause 2.3.1(3)(a) of the IM Determination is to be calculated in accordance with clauses 2.3.1(4) and 2.4.1(4) of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	
(15) Forecast tax depreciation deduction for the disclosure year ending 30 June 2015	The forecast regulatory profit/loss before tax under the tax rules for the regulatory tax allowance (Formula G) is calculated by taking into account a deduction for depreciation calculated under the tax rules.	The forecast tax deduction for depreciation for the disclosure year under clause 2.3.1(3)(b) of the IM Determination is to be calculated in accordance with clause 2.3.1(3)(b) of the IM Determination and the forecast regulatory tax asset value calculated in accordance with clause 2.3.2 of the IM Determination, with necessary modifications as determined and disclosed by Transpower in accordance with this Notice to allow values to be calculated on a forecast basis.	

Section G: Calculating the EV adjustment			
(1) Forecast opening EV account balance for the disclosure year ending 30 June 2013	The forecast opening EV account balance is used to calculate the forecast EV adjustment (Formula H).	The forecast opening EV account balance, as specified in clause 5.3 of the IPP Determination, is the actual EV account balance as at 30 June 2011 less the post-tax EV adjustment applied in the setting of the forecast MAR for the transition year (disclosure year ending 30 June 2012), and the balance includes the forecast interest for the transition year calculated in accordance with clause 5.3(2)(c) of the IPP Determination at the WACC rate specified in Appendix 3, Item 8.	
(2) Forecast EV adjustment for the disclosure year ending 30 June 2013	The forecast EV adjustment (Formula H) is calculated based on the forecast balance in the EV account for the prior year.	The EV adjustment for the disclosure year is calculated on a grossed-up pre-tax basis in accordance with clause 5.3 of the IPP Determination as the sum of the attribution of the forecast opening EV account balance for the year ending 30 June 2013 (see Section G(3) below of this Appendix) plus interest at the WACC rate (see Section G(4) below of this Appendix) plus the amount required to gross up the adjustment to a pre-tax revenue amount (see Section G(5) below of this Appendix).	
(3) Attribution of the forecast opening EV account balance for the disclosure year ending 30 June 2013	The forecast opening EV account balance is attributed in one-eighth instalments to the forecast EV adjustment (Formula H).	The attribution of the forecast opening EV account balance is calculated in accordance with clause 5.3(4)(a) of the IPP Determination as one-eighth of the forecast opening EV account balance for the disclosure year ending 30 June 2013 (see Section G(2) above of this Appendix).	
(4) Forecast interest on the forecast EV account balance for the disclosure year ending 30 June 2013	The forecast EV adjustment (Formula H) includes interest calculated on the forecast balance of the EV account.	The forecast interest for the disclosure year is calculated in accordance with clause 5.3(2)(c) of the IPP Determination at the WACC rate specified in Appendix 3, Item 8.	
(5) Forecast tax gross-up amount to adjust EV adjustment (inclusive of interest) to a pre-tax basis for the disclosure year ending 30 June 2013	The forecast EV adjustment (Formula H) is adjusted to a pre-tax revenue amount by including a tax adjustment.	The tax gross-up adjustment is calculated in accordance with clause 5.3(4)(c) of the IPP Determination, by applying the corporate tax rate specified in Appendix 3, Item 10, and using the attribution of the forecast opening EV account balance (see Section G(3) above of this Appendix) and the interest on the forecast EV account balance (see Section G(4) above of this Appendix).	

(6) Forecast EV adjustment for the disclosure year ending 30 June 2014	The forecast EV adjustment (Formula H) is calculated based on the forecast balance in the EV account for the prior year.	The EV adjustment for the disclosure year is calculated on a grossed-up pre-tax basis in accordance with clauses 5.3(2), 5.3(4)(a) and 5.3(4)(c) of the IPP Determination as the sum of one-eighth of the forecast EV account balance for the year ending 30 June 2012 (see Section G(7) below of this Appendix) plus interest at the WACC rate (see Section G(8) below of this Appendix) plus the amount required to gross up the adjustment to a pre-tax revenue amount (see Section G(9) below of this Appendix).	
(7) Attribution of the forecast opening EV account balance for the disclosure year ending 30 June 2014	The forecast opening EV account balance is attributed in one-eighth instalments to the forecast EV adjustment (Formula H).	The attribution of the forecast opening EV account balance is calculated in accordance with clause 5.3(4)(a) of the IPP Determination as one-eighth of the forecast opening EV account balance for the disclosure year ending 30 June 2013 (see Section G(1) above of this Appendix).	
(8) Forecast interest on the forecast EV account balance for the disclosure year ending 30 June 2014	The forecast EV adjustment (Formula H) includes interest calculated on the forecast balance of the EV account.	The forecast interest for the disclosure year is calculated in accordance with clause 5.3(2)(c) of the IPP Determination at the WACC rate specified in Appendix 3, Item 8.	
(9) Forecast tax gross-up amount to adjust EV adjustment (inclusive of interest) to a pre-tax basis for the disclosure year ending 30 June 2014	The forecast EV adjustment (Formula H) is adjusted to a pre-tax revenue amount by including a tax adjustment.	The tax gross-up adjustment is calculated in accordance with clause 5.3(4)(c) of the IPP Determination, by applying the corporate tax rate specified in Appendix 3, Item 10, and using the attribution of the forecast opening EV account balance (see Section G(7) above this Appendix)) and the interest on the forecast EV account balance (see Section G(8) above of this Appendix).	
(10) Forecast EV adjustment for the disclosure year ending 30 June 2015	The forecast EV adjustment (Formula H) is calculated based on the forecast balance in the EV account for the prior year.	The EV adjustment for the disclosure year is calculated on a grossed-up pre-tax basis in accordance with clauses 5.3(4)(a) and 5.3(4)(c) of the IPP Determination as the sum of one-eighth of the forecast EV account balance for the year ending 30 June 2012 (see Section G(11) below of this Appendix) plus interest at the WACC rate (see Section G(12) below of this Appendix) plus the amount required to gross up the adjustment to a pre-tax revenue amount (see Section G(13) below of this Appendix).	

(11) Attribution of the forecast opening EV account balance for the disclosure year ending 30 June 2015	The forecast opening EV account balance is attributed in one-eighth instalments to the forecast EV adjustment (Formula H).	The attribution of the forecast opening EV account balance is calculated in accordance with clause 5.3(4)(a) of the IPP Determination as one-eighth of the forecast opening EV account balance for the disclosure year ending 30 June 2013 (see Section G (1) above of this Appendix).	
(12) Forecast interest on the forecast EV account balance for the disclosure year ending 30 June 2015	The forecast EV adjustment (Formula H) includes interest calculated on the forecast balance of the EV account.	The forecast interest for the disclosure year is calculated in accordance with clause 5.3(2)(c) of the IPP Determination at the WACC rate specified in Appendix 3, Item 8.	
(13) Forecast tax gross-up amount to adjust EV adjustment (inclusive of interest) to a pre-tax basis for the disclosure year ending 30 June 2015	The forecast EV adjustment (Formula H) is adjusted to a pre-tax revenue amount by including a tax adjustment.	The tax gross-up adjustment is calculated in accordance with clause 5.3(4)(c) of the IPP Determination, by applying the corporate tax rate specified in Appendix 3, Paragraph 10, and using the attribution of the forecast opening EV account balance (see Section G(11) above this Appendix) and the interest on the forecast EV account balance (see Section G(12) above of this Appendix).	

Section H: Calculating forecast pass-through costs			
(1) Forecast pass-through costs for the disclosure year ending 30 June 2013	The forecast pass-through costs (Formula J) are a component of total revenues used for the setting of charges.	The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Pass-through costs are defined in clause 3.1.2 of the IM Determination. Forecast pass-through costs for the disclosure year ending 30 June 2013 include adjustments to reflect the difference between previously forecast values and the actual values for the assessment year ended 30 June 2011 under the Thresholds Notice that have not otherwise been reflected in calculations of Transpower's revenues.	
(2) Forecast pass-through costs for the disclosure year ending 30 June 2014		The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Pass-through costs are defined in clause 3.1.2 of the IM Determination. Forecast pass-through costs for the disclosure year ending 30 June 2014 will be updated by Transpower together with the update of the forecast MAR in November 2012.	
(3) Forecast pass-through costs for the disclosure year ending 30 June 2015		The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Pass-through costs are defined in clause 3.1.2 of the IM Determination. Forecast pass-through costs for the disclosure year ending 30 June 2015 will be updated by Transpower together with the update of the forecast MAR in November 2013.	

Section I: Calculating forecast recoverable costs			
(1) Forecast recoverable costs for the disclosure year ending 30 June 2013	The forecast recoverable costs (Formula K) are a component of total revenues used for the setting of charges	The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Recoverable costs are defined in clause 3.1.3 of the IM Determination. Forecast recoverable costs for the disclosure year ending 30 June 2013 will include adjustments to reflect previously forecast values and the actual values for the assessment year ended 30 June 2011 under the Thresholds Notice that have not otherwise been reflected in calculations of Transpower's revenues.	
(2) Forecast recoverable costs for the disclosure year ending 30 June 2014		The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Recoverable costs are defined in clause 3.1.3 of the IM Determination. Forecast recoverable costs for the disclosure year ending 30 June 2014 will be updated by Transpower together with the update of the forecast MAR in November 2012.	
(3) Forecast recoverable costs for the disclosure year ending 30 June 2015		The price path in accordance with clause 3.4(1) of the IPP Determination requires that the sum of the forecast MAR and the pass-through costs and the recoverable costs for the disclosure year must not exceed the revenue used by Transpower to set its charges for the pricing year that relates to that disclosure year. Recoverable costs are defined in clause 3.1.3 of the IM Determination. Forecast recoverable costs for the disclosure year ending 30 June 2015 will be updated by Transpower together with the update of the forecast MAR in November 2013.	

APPENDIX 3: VALUES TO BE APPLIED IN THE DRAFT FORECAST MAR BUILDING BLOCK CALCULATIONS

Explanatory Note

This Appendix 3 sets out values determined by the Commission or determined under the input methodologies (such as the WACC) that need to be applied to the calculations in Appendix 1 and Appendix 2 in order to calculate the forecast MAR for each disclosure year in the Remainder Period.

DESCRIPTION OF VALUE THAT IS TO APPLY	SPECIFIED VALUE
1. Operating expenditure allowance for Transpower's disclosure year ending 30 June 2013	$[ ] million[3] – value to be advised
2. Operating expenditure allowance for Transpower's disclosure year ending 30 June 2014	$[ ] million – value to be advised
3. Operating expenditure allowance for Transpower's disclosure year ending 30 June 2015	$[ ] million – value to be advised
4. Approved minor capital expenditure for Transpower's disclosure year ending 30 June 2013	$[ ] million – value to be advised
5. Approved minor capital expenditure for Transpower's disclosure year ending 30 June 2014	$[ ] million – value to be advised
6. Approved minor capital expenditure for Transpower's disclosure year ending 30 June 2015	$[ ] million – value to be advised
7. Pseudo asset depreciation, to be included in the forecast unallocated depreciation and depreciation, as applicable, for all disclosure years in RCP1	$6.4 million
8. The post-tax WACC for all disclosure years in RCP1, as determined by the Commission in accordance with the *Determination of the Cost of Capital for Services Regulated under Part 4 of the Commerce Act 1986, pursuant to decisions 709, 710, 711, 712 and 713*, 3 March 2011	7.19%
9. The vanilla basis WACC for all disclosure years in RCP1, as determined by the Commission in accordance with the *Determination of the Cost of Capital for Services Regulated under Part 4 of the Commerce Act 1986, pursuant to decisions 709, 710, 711, 712 and 713*, 3 March 2011	8.05%
10. The corporate tax rate for all disclosure years relating to the remainder period	28%

[3] The values for the operating expenditure allowances and the minor capital expenditure allowances are to be advised to Transpower by way of an update to this Appendix when the values are determined by the Commission

APPENDIX 4: DRAFT FORECAST MAR SUMMARY

FORECAST MAR BUILDING BLOCK (REFER APPENDIX 1)	PRICING YEARS (ENDING 31 MARCH)/ DISCLOSURE YEARS (ENDING 30 JUNE)		
	2013 (RCP1 Year 2)	2014 (RCP1 Year 3)	2015 (RCP1 Year 4)
Average RAB			
WACC			
Capital charge			
Term credit spread differential			
Operating expenditure			
Depreciation			
Tax			
EV adjustment			
FORECAST MAR			
Pass-through costs			
Recoverable costs			
FORECAST REVENUE			

APPENDIX 5: EXPERT OPINIONS AND SUPPORTING INFORMATION

CERTIFICATION OR INFORMATION REQUIRED	FORM OF INFORMATION
1. Directors' Certificate	Directors' certificate in the format set out in Appendix 6, to be completed and signed by a minimum of two directors of Transpower.
2. Independent assurance report	Independent assurance report as set out in Appendix 7, to be provided by an auditor.
3. Summary calculation of the draft forecast MAR for each pricing year in the remainder period	Summary calculation of the draft forecast MAR in the form prescribed in Schedule D of the IPP Determination, suitable for publication.
4. Transpower's supporting workpapers	Copies of Transpower's supporting workpapers in respect of each of the building blocks used in the remainder period draft forecast MAR calculations (and material component elements of each, if applicable), cross-referenced to the forecast MAR summary calculation, showing how the numbers have been calculated, identifying any significant adjustments to the numbers, referencing the sources of the data used, and identifying any material judgments or estimates made in applying the data with particular reference to any variations from standard policies or processes.
5. Narrative description of each 'necessary modification' applied to an input methodology	Brief description of the methodology and references to Transpower's workpapers describing the associated calculations made, in every case where a 'necessary modification' to the input methodologies prescribed in the IM Determination, apart from those modifications specified in this notice, is required to be applied by Transpower in order for values to be calculated on a forecast basis for a draft forecast MAR in the remainder period.
6. Engineer reports in respect of asset lives	Copies of engineer reports relied upon by Transpower in respect of physical asset life assumptions used by Transpower in calculating the draft forecast MARs, where the assumed physical asset lives differ from the standard physical asset lives specified in the asset valuation input methodology in the IM Determination.
7. Updates to the forecast MAR calculation model	Brief narrative description of the changes made to the Transpower forecast MAR calculation model and associated processes since the calculation of the transition year forecast MAR in order to conform the forecast MAR calculation model to the requirements of the IPP Determination and the IM Determination.
8. Cost allocation process	Brief narrative description of the cost allocation process applied by Transpower to meet the requirements of clauses 2.1.1 and 3.2.1 of the IM Determination.

9. Sources of calculations	Summary workpaper outlining the numbers sourced directly from calculations in Transpower's forecasting tool (currently TM1), identifying the applicable scenario (or scenarios) used to describe the remainder period forecast MARs within the applicable database, and identifying any numbers calculated in spreadsheets outside of that database for the remainder period draft forecast MARs.
10. EV adjustments	Copies of Transpower's workpapers that demonstrate how the EV adjustment in each draft forecast MAR is calculated and allocated between the HVAC EV account and the HVDC EV account.
11. Transition year opening RAB value	Copies of Transpower's workpapers that demonstrate how the opening RAB value for the transition year has been translated through to the forecast opening RAB value for the remainder period.
12. Pass-through costs and recoverable costs	Workpaper setting out the forecast pass-through costs and recoverable costs that will be used for the purposes of setting charges for the pricing year commencing 1 April 2012.
13. Policy on capital expenditure hedging	Copy of Transpower's most recently updated policy on capital expenditure hedging, with a brief narrative on any material changes made to the policy as compared to the version that applied at the time of the issue of the IPP Determination on 22 December 2010.

APPENDIX 6: DIRECTORS' CERTIFICATE – REMAINDER PERIOD DRAFT FORECAST MARS

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower) certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached draft forecast maximum allowable revenue (forecast MAR) calculations for the three pricing years in the period from 1 April 2012 to 31 March 2015 and dated [insert date] comply with the Commission's requirements in respect of the draft forecast MARs, which were issued by notice in writing to Transpower under section 53ZD of the Commerce Act 1986 on [insert date]*[except in the following respects:].

*[insert description of non-compliance if applicable]

[Signatures of directors]
[Date]

*Delete if inapplicable.

APPENDIX 7: 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 Commission's 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 [insert date] (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 that 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.

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 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 [insert date], have been calculated, in all material respects, in accordance with the Notice.

***[Qualification on Opinion]**

*[Our opinion is qualified as follows:]

*[Insert the nature of and reason(s) for any qualification together with the estimated impact on each draft forecast MAR calculation].

Our assurance engagement was completed on [insert date] and our opinion is expressed as at that date.

[Signature of auditor]
[Name of auditor]
[Name of firm]
[Address of firm]
[Date]

*Delete if inapplicable.

Independence

We have no relationship with, or interests in Transpower other than [insert relationship and/or interests, including a statement verifying that no conflict of interest exists].