

9 September 2011

Dr Graham Scott
Chair, Transmission Pricing Advisory Group
26 Sefton Street
Wadestown
WELLINGTON

Dear Graham

On behalf of the Electricity Authority Board I would like to thank TPAG for its report on transmission pricing, presented to the Board at its 6 September 2011 meeting.

Despite a challenging timeframe, a substantial body of work has been completed on this highly contentious and complex issue. I believe it is widely accepted that the work completed by TPAG has raised the quality of analysis available to the Board in its consideration of transmission pricing.

The Board noted that TPAG was unable to make a recommendation on pricing for the HVDC link, despite strong representations to us by the CEO Forum that industry had already reached a consensus on this. However your analysis of this issue is valuable, and you have recommended additional analysis be undertaken by the Authority, in relation to GEM, and issues raised by the independent reviewer. The Board agrees that additional work needs to be done.

The Authority will now consider the analysis provided by TPAG, earlier work conducted by the Electricity Commission (Stages I and II), the independent expert review, and submissions made on TPAG's discussion paper. Upon completing additional analysis, the Authority will form a view on whether or not a robust case can be made for a change from the status quo to some other means of allocating transmission costs. There is also possibility that the Authority may consider other options not considered by TPAG.

Turning to static reactive compensation, TPAG has recommended that transmission pricing guidelines be modified due to an identified regulatory failure with the current arrangements, coupled with an efficiency gain from changing to a 'modified KVAR charge' option. The Board has noted there is general support for this option.

Once again the Board would like to record its special thanks to you as Chair and the other members of TPAG, who have worked so hard and achieved so much over a short time period. The analysis provided will be valuable in reaching a robust and enduring solution to the pricing of transmission services.

Yours sincerely



Carl Hansen
Chief Executive

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