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Peter Harris
Deputy Chair
Electricity Commission
Level 7, ASB Towers
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Dear Peter

Verification of Transpower's Transmission Prices

I refer to your letter dated 4 September in which you set out the Commission's position in relation to Transpower's anticipated publication of its transmission prices and the Commission's expectations of Transpower under rule 9.2 of section IV of Part F of the Electricity Governance Rules 2003. I note also that the letter was posted on the Commission's website on 5 September.

Firstly, I confirm Transpower's interpretation of Rule 9.2.2 of section IV, which requires Transpower to demonstrate to the Commission that its transmission prices have been calculated in accordance with the transmission pricing methodology (TPM) incorporated into the Rules. In recent months, Transpower has undertaken a considerable amount of work to re-develop its pricing model and associated processes to ensure consistency with the requirements of the new pricing methodology. As previously discussed with Commission staff, Transpower is close to finalising the development of its pricing model and has recently engaged PWC to undertake an independent review of both the pricing model and the model's application to determine customers' prices for the 2008/09 pricing year. A copy of the terms of reference and programme for this independent review has been made available to the Commission.

Transpower notes the Commission's decision not to exercise its discretion, at this stage, under rule 9.3.1 of section IV to appoint an auditor to confirm whether the transmission prices have been calculated in accordance with the TPM. Reasons for this decision have been set out in your letter.

I would, however, like to clarify a few points raised in paragraphs 3 and 4 of your letter in relation to the timeframe for publishing transmission prices for 2008/09.

As the Commission will be aware, in recent years, Transpower has provided transmission prices to customers at the end of November / beginning of December, recognising that this benefits customers' management of their own commercial processes. This year, with prices being based on the Commission's new pricing methodology, Transpower appreciates that its distribution customers, in particular, would prefer as much notice as possible of the new transmission charges in order to be able to review and calculate their own prices for the 2008/09 pricing year.

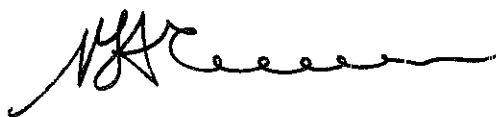
Paragraph 3 of the Commission's letter refers to Transpower's intention to complete the development of transmission prices by early October, with a view to publishing these in late October/ early November 2007. Transpower wishes to correct this statement.

Whilst Transpower may finalise the internal sign-off of 2008/09 prices, and complete the associated internal reviews to ensure compliance with rule 9.2.1 of section IV, by the middle of October, meeting this timetable is uncertain. It is more likely that Transpower will publish prices in either late November or early December following either the November or December Board meetings¹. This timing is in line with past practice and also recognises the need to align price levels with the outcomes of the Administrative Settlement with the Commerce Commission, as well as meet the requirements for Directors' certification of prices as requested by the Commission.

Transpower will, of course, make every effort to publish its prices and notify its customers as soon as practicable.

My staff will continue to engage with the Commission to keep them apprised of progress over the coming weeks.

Yours sincerely



Dr Ralph H Craven
Chief Executive

¹ The November Board meeting is scheduled for 15 November. The December Board meeting is scheduled for 6 December.