

12 April 2022

Alison Andrew
Chief Executive
Transpower New Zealand
Wellington

By email: Alison.Andrew@transpower.co.nz

Dear Alison

A new transmission pricing methodology (TPM)

I am writing to confirm that the Authority has decided to incorporate a new TPM into the Code. The Authority publicly released the new TPM today.

The decision to incorporate a new TPM into the Code is a significant milestone, which could not have been achieved without sustained effort and contributions from Transpower staff. The Authority is grateful to you and your team for their part in this extensive collaborative effort.

The Authority has decided on a commencement date for the new TPM of 1 April 2023. In reaching this decision, the Authority carefully considered the matters raised in your letter of 18 March 2022 responding to the Authority's request for feedback on the proposed commencement date. We note your feedback and the caveats outlined in the letter, and we are grateful for your commitment to continue to work positively with the Authority and other stakeholders to achieve successful implementation of the new TPM by 1 April 2023. We remain open to further dialogue with Transpower should you encounter material obstacles to implementing the new TPM by that date.

Prudent discount practice manual

The new TPM provides that Transpower must publish a prudent discount practice manual. We are conscious that preparation of a comprehensive manual in the next year would place a significant burden on Transpower's resources at a time when these are heavily committed to essential TPM implementation tasks. So, while we expect a more comprehensive manual to be published in due course, the scope of the initial version of the manual may be more limited.

The Authority's expectation is that Transpower will make best endeavours to prepare and publish an initial prudent discount practice manual by 1 February 2023, which contains the following content in relation to both an inefficient bypass prudent discount and a standalone cost prudent discount:

- The application requirements, with additional explanatory material on process-related matters relevant to prudent discount applications.
- The application fee, if any.

- A schematic showing the steps associated with a typical application for each of an inefficient bypass prudent discount and a standalone cost prudent discount, with supporting explanatory text elaborating on these steps and the associated Code provision(s).
- Definitions of key terms, particularly economic terms used in the context of the standalone cost prudent discount (such as “brownfields” optimisation).

I would be grateful if you could confirm that Transpower will make best endeavours to meet this timeframe.

Next steps

The Authority expects to consult on a number of potential Code amendments this year on matters related to the TPM. We plan to begin consultation on some of these within the next month. My staff will keep your team informed of these matters and seek their input as appropriate.

I look forward to our teams continuing to work together through the next phase of the project, as Transpower prepares for the commencement of the new TPM.

Yours faithfully

A handwritten signature in black ink, appearing to read 'J. Stevenson-Wallace', with a stylized flourish at the end.

James Stevenson-Wallace
Chief Executive