



TRANSPOWER

Keeping the energy flowing

Waikoukou
22 Boulcott Street
PO Box 1021
Wellington 6140
New Zealand
P 64 4 495 7000
F 64 4 495 6968
www.transpower.co.nz

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To the Commerce Commission and our stakeholders

New Zealand's national electricity transmission grid is fundamental to powering our way of life, to our sustainable energy future and our efforts to combat climate change. The way we use energy is rapidly changing, and we are ambitious for a future that has a reliable, clean and resilient renewable energy supply at a fair price for our customers.

Securing our energy future

Our RCP3 proposal is primarily based around continued efficiency and sustaining and maintaining the grid. It's essential that we have a resilient, reliable base that can respond to the demands that an increasingly electrified economy will place on our infrastructure. Our *Te Mauri Hiko* research finds that the electrification of our economy will require a combination of investment in the grid and new technology to optimise our existing infrastructure. However, the focus of this RCP3 proposal is on sustaining the grid so the foundation can be leveraged to meet future opportunities.

Clean, renewable energy will displace fossil fuels in transport and industry, and we are committed to playing our role in ensuring we have the required skills, capabilities and culture to shape this transformation, and to secure an international competitive advantage for our industries and exporters. Our electricity system will be critical to the economic and environmental success of our country, as we forecast the electrification of transport and key industrial processes will double the amount of electricity generation required in New Zealand over the next 30 years.

We now have the unique opportunity to deliver the best value for our customers, as New Zealanders begin to have greater control over their energy use in the future. Over RCP3, we look to set up a foundation for a modern and resilient national grid. It is critical we retain the trust and confidence of our stakeholders and customers by continuing to be transparent and accountable, while ensuring our planning and implementation is thorough and rigorous.

RCP2 achievements

Evaluating our performance over the current RCP2 period, we have made good progress on our key measures, focusing on delivering value to our shareholder, customers and electricity consumers.

In finalising our RCP2 capital expenditure allowance, we committed to reduce capital expenditure by 7.5 per cent from our initial spending forecasts to fund the business during the 5 years from 2015 to 2020, and we are on track to successfully deliver against this target. Cost savings are now embedded in our assumptions around RCP3 funding. The regulatory and performance incentive regime helps drive continued efficiency and value for all stakeholders and consumers.

Over the RCP2 period, we have transformed how we operate by focusing on effectiveness and efficiency, including the way we manage our assets and how we balance operational and capital expenditure requirements. We have built capacity to prepare for our changing energy future through the way we manage data, and by investing in our people to ensure we have the right skills we need to take the organisation forward.

We have recently formed a Consumer Advisory Panel to help us better understand the needs, issues and opportunities for New Zealanders as our country considers the implications of transitioning to a low carbon economy. The panel brings together a diverse group of people who represent all aspects of our society, including those on lower incomes. The first meeting was held on 8th November 2018, and we expect that over time, it will help Transpower understand and respond to consumer needs.

While we have transformed much of our business over RCP2, we will continue to seek greater efficiencies throughout RCP3 and beyond, both in our operations and capital projects. In this, our third regulatory control period proposal, we set out how we will maintain the national grid from 2020 – 2025 and plan our future programmes of work.

Strengthening our proposal

This proposal has been shaped with input and guidance provided from our stakeholders and our independent verifier, Synergies and GHD. We have proactively sought and collected feedback from industry, consumers, and other interested New Zealanders to help us shape our future work programme.

Our five-week public consultation period was an important step in our process. We invited feedback in letters, email, face-to-face meetings, as well as through our Facebook page. To support our public consultation document, we hosted a public focus group session in Auckland, Wellington and Christchurch. As a result of this consultation we received 11 constructive and robust submissions, all of which have been taken into consideration in this proposal.

The main feedback we have included is the request to consider building workforce capacity during RCP3, rather than reduce the volume of planned work to reflect current constraints. Also, stakeholders were supportive of Transpower reviewing the standards and specifications that guide the quality of the grid assets we build, to find ways to reduce our costs. We thank all those who took the time to submit feedback to us.

This year we agreed with the Commerce Commission to commission an independent assessment of our proposal. To that end, an independent verifier, made up of a consortium of people from Synergies and GHD Advisory, provided us with invaluable independent feedback and recommendations for this proposal.

Clear vision for the future

Transpower will continue to deliver value in the years ahead through a safe, secure and highly efficient energy system that can enable New Zealand's energy future. We are confident this proposal will set us up appropriately as we move to a low carbon economy and help New Zealand deliver on its obligations under the Paris Accord.

Ngā mihi nui,



Alison Andrew
Chief Executive