



The Directors
Transpower New Zealand Limited
PO Box 1021
WELLINGTON

The Commerce Commission
PO Box 2351
WELLINGTON

13 November 2014

Independent Assurance Report – Phase Two forecast MAR and revenue calculations

We have been engaged to provide an independent assurance report on Transpower New Zealand Limited's (Transpower) Phase Two forecast MAR and revenue calculations as required by the Notice to Supply Information to the Commerce Commission Section 53ZD of the Commerce Act 1986 dated 12 September 2014 (the 53ZD Notice). For the purpose of this report the Phase Two forecast MAR and revenue calculations are defined as the forecast MAR and revenue amounts calculated by Transpower and as set out in Table 1 in this report.

Directors' and Auditor's responsibilities

Transpower's directors are responsible for the preparation of the Phase Two forecast MAR and revenue calculations in accordance with the 53ZD Notice and for such internal controls as the directors determine are necessary to enable the preparation of the Phase Two forecast MAR and revenue calculations that is free from material misstatement.

We are qualified as an auditor as defined in the Transpower Individual Price-Quality Path Draft Determination 2015 published on 12 September 2014. Our responsibility is to provide this independent assurance report with respect to Transpower's Phase Two forecast MAR and revenue calculations and in accordance with the requirements of the 53ZD Notice.

Basis of opinion

We have conducted an assurance engagement in accordance with the framework for Assurance Engagements and the Standard on Assurance Engagements 3100 (SAE 3100) and Standard on Assurance Engagements 3000 (SAE 3000) issued by the External Reporting Board.

The objectives of an assurance engagement carried out under SAE 3100 are to:

- (1) 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
- (2) Express a conclusion on that compliance in the form of an opinion.

The objectives of an assurance engagement carried out under SAE 3000 are to:

- (1) Obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter and information is free from material misstatement;
- (2) Express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either a reasonable assurance or a limited assurance conclusion and describes the basis for the conclusion; and
- (3) Communicate further as required by the ISAE (NZ) and any other relevant ISAEs (NZ) or SAEs.



The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the Phase Two forecast MAR and revenue calculations are free from material misstatement in respect of compliance with the 53ZD Notice.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the Phase Two forecast MAR and revenue calculations when determining the nature and extent of our evidence-gathering procedures.

An assurance engagement involves performing procedures to obtain appropriate evidence about the amounts in the Phase Two forecast MAR and revenue calculations. The procedures selected depend on judgment, 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 preparation of the Phase Two forecast MAR and revenue calculations 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.

An assurance engagement also includes evaluating the appropriateness of the calculations and the reasonableness of estimates made by Transpower in preparing the information that it is required to disclose in the Phase Two forecast MAR and revenue calculations.

Our assurance engagement included examination, on a test basis, of evidence relevant to the amounts contained in the Phase Two forecast MAR and revenue calculations set out in Table 1 of this report.

The procedures we have undertaken in relation to the amounts contained in Table 1 included:

- (1) Examining, on a test basis, internally and externally generated documents and records;
- (2) Interviewing Transpower personnel;
- (3) Reviewing calculation methodologies and judgments used to derive the amounts;
- (4) Testing the mathematical accuracy of the calculations;
- (5) Identifying key inputs to the calculations and reconciling or agreeing these to source documents and systems; and
- (6) Such other procedures as we considered necessary.

In performing our procedures we have placed reliance on Transpower's underlying systems and business records.

Our assurance engagement also included an assessment of the significant estimates and judgments, if any, made by Transpower in the preparation of the Phase Two forecast MAR and revenue calculations and an assessment of whether the basis of preparation with respect to the 53ZD Notice and supporting information has been adequately disclosed.

Opinion

We have obtained all the information and explanations we required to express our opinion.

In our opinion:

- (1) As far as appears from the examination, the information used in the preparation of the Phase Two forecast MAR and revenue calculations has, where applicable, been properly extracted from Transpower's accounting and other records, sourced from its financial and non-financial systems.



- (2) As far as appears from the examination, proper records to enable the complete and accurate compilation of the RCP2 Forecast MAR and revenue calculations have been kept by Transpower.
- (3) Transpower has complied, in all material respects, with the 53ZD Notice in preparing the Phase Two forecast MAR and revenue calculations and supporting information.

Emphasis of Matter

Without modifying our opinion, we draw attention to note that the Commerce Commission (the Commission) has raised the possibility that the financing rate for works under construction should be capped at the applicable information disclosure WACC rate, which is set at the start of each disclosure year. This differs from Transpower’s approach of capping the financing rate at the applicable individual price-quality path WACC rate, which is set at the start of each regulatory period. Transpower’s approach is the basis for the Phase Two forecast MAR and revenue calculations.

Transpower is not able at this time to calculate the impact of this matter on the MAR. Also, it is not certain that the approach to determining the financing rate for works under construction suggested by the Commission will be implemented.

Forecast MAR and revenue

Our assurance procedures and the opinions included in this report relate to the specific Phase Two forecast MAR and revenue calculations prepared by Transpower in accordance with the 53ZD Notice. Transpower’s forecast revenue for each year of RCP2 is presented in Table 1.

Table 1 Forecast Revenue

Disclosure Year	Forecast Revenue (\$m)		
	AC	DC	Total
2015/16	766.6	149.9	916.6
2016/17	799.7	143.9	943.6
2017/18	832.6	145.8	978.3
2018/19	817.2	149.4	966.6
2019/20	825.9	144.7	970.6

Our assurance procedures have been undertaken only in relation to the Phase Two forecast MAR and revenue calculations that Transpower is required to prepare under the 53ZD Notice. Accordingly we express no opinion on other amounts or calculations that are not required by the 53ZD Notice.

Independence

We have no relationship with or interests in Transpower other than in our capacity as auditors of the Phase Two forecast MAR and revenue calculations and in the provision of other assurance, taxation and professional advisory services. We are not aware of any relationships between our firm and Transpower that, in our professional judgment, impairs our independence.



Completion

Our independent assurance engagement was completed on 13 November 2014 and our opinion is expressed as at that date.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Wellington