



**TRANSPOWER**

*Keeping the energy flowing*

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25 August 2010

James Collinson-Smith  
Manager Market Services  
Contact Energy  
PO Box 10742  
**WELLINGTON**

Dear James

### **HVDC RESERVES COSTS ASSOCIATED WITH COMMISSIONING OF POLE 3**

You have asked how Transpower will be treating reserve costs during the commissioning of Pole 3. I can confirm the earlier advice provided by email from John Coulter on 6 August 2010 and which followed up the discussion at our meeting on 4 August.

Our view is that for **accounting** purposes;

1. Pole 1 is due for replacement. Therefore, reserve costs in the period when Pole 1 is removed from service are *not* a direct cost of putting the Pole 3 asset in place and should not be capitalised to the HVDC upgrade project.
2. Any extra reserve costs incurred during the Pole 3 commissioning (February / March 2012) should be capitalised to the HVDC upgrade project.
3. Any extra reserve costs incurred during the Pole 2 outage (October – December 2012) should be capitalised to the HVDC upgrade project.
4. The costs of any Availability Contracts for the purposes of securing reserves during Pole 3 commissioning should be capitalised to the HVDC upgrade project.

We have discussed the above with our external auditors who concur with the accounting treatments proposed. Should you require further information on the above, please contact John Coulter (04 494 7360) in the first instance.

Yours Sincerely



Howard Cattermole

General Manager, Corporate Services.