

13 September 2016

John Findlay
Regulatory Accountant
Transpower New Zealand Ltd
96 The Terrace
Wellington, 6140

Dear John

Transpower New Zealand Ltd - Exemption from requirement to use the 75th WACC percentile as required by the Transpower Information Disclosure Determination

1. In your email dated 09 August 2016 you requested clarification that Transpower New Zealand Ltd (Transpower) should use the 67th percentile when comparing its return on investment (ROI) numbers, rather than the 75th percentile as currently stated in clauses 8.8 to 8.10 of the Transpower Information Disclosure Determination 2014 (ID Determination).
2. The WACC percentile for price-quality regulation was revised from the 75th percentile to the 67th percentile by an amendment to the Transpower Input Methodologies Determination 2012 (Transpower IM) in October 2014 (Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014, NZCC 27).
3. In December 2014 an additional amendment was made to the Transpower IM (Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014, NZCC 38). This amendment requires the Commission to determine, for each disclosure year, a 67th percentile estimate of vanilla and post-tax WACC in addition to the existing requirement to determine the following estimates of WACC (both vanilla and post-tax):
 - 3.1 mid-point;
 - 3.2 25th percentile; and
 - 3.3 75th percentile.
4. Transpower's maximum allowable revenue (MAR) in the Transpower Individual Price-Quality Path Determination 2015 (IPP) was set using the 67th percentile. Your request arises because you believe that comparing the Transpower ROI figures to the

75th percentile would seem to be inappropriate when the MAR has been set using the 67th percentile.

5. The Commission has assessed your request and agrees that Transpower may prepare the comparisons of the ROI numbers to the 67th percentile, if it chooses to.
6. Under clause 22.1 of the ID Determination the Commission exempts Transpower from using the 75th WACC percentile for the ROI comparisons required under clauses 8.8 to 8.10 for the disclosure year ended 30 June 2016, on the condition that the disclosures are made using the 67th percentile.
7. This exemption may be revoked or amended in accordance with clause 22.2 of the ID Determination.
8. If you have any questions regarding the matter, please contact Alison Young on 04 924 3823.

Yours sincerely



Sue Begg
Deputy Chair