

4 July 2011

Doug Watson
Energy Manager
Fonterra

By email: Doug.Watson@fonterra.com

Dear Doug

Request for an extension to the deadline for submissions on the TPAG Discussion Paper

Thank you for your email dated 30 June 2011 in which you requested a two week extension to the deadline for submissions on the TPAG Discussion Paper (Discussion Paper).

We note your concerns and recognise the importance of quality submissions from participants.

Although the Discussion Paper is published by TPAG, the Electricity Authority (Authority) has considered the requested extension as the Authority sets the overall programme for the transmission pricing review.

In considering whether an extension is appropriate we have considered the following issues.

The impact on the published review process

If the Authority considers that a change to the existing Transmission Pricing Methodology (TPM) is justified, the review must follow an Electricity Industry Participation Code-prescribed (Code) process to develop and apply a new TPM. The indicative timeframe for this process is set out at a high-level in the Discussion Paper. The timeframes are tight if the objective of putting in place any new arrangements by April 2013 is to be met.

Any delay increases the risk of a further one year delay to the implementation of any new TPM should the Authority's decision be that change is justified. This would introduce further uncertainty for participants with consequential impacts on efficient investment in the industry. There are a number of consultation stages still to come should the Authority decide to publish an Issues Paper, each will have its own adequate consultation period.

Adequate time for consultation on Discussion Paper

The consultation period for the Discussion Paper is just over five weeks. This is in line with, or slightly longer than, other consultation periods. Participants have been given advanced notice of the publication of the Discussion Paper through regulatory managers' meetings and through the Authority's weekly Market Brief (for example Market Brief, 12 April 2011 and 24 May 2011).

There are MEUG members on TPAG who would have understood the timing of the publication. In addition, TPAG has run an open, transparent process with papers and early drafts of the Discussion Paper have been available on the website.

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The Authority considers that participants have had advanced notice of both the timing of the consultation and the nature and extent of the analysis contained in the paper. Although the analysis in the paper is complex, five weeks is sufficient time for consultation given the prior notice given, the openness of the process and the opportunities for involvement of stakeholders throughout. The analysis and complexity of the Discussion Paper have been signalled throughout.

The role of the TPAG Discussion Paper in the overall review process

TPAG's analysis and Discussion Paper is part of a transmission pricing review that was initiated by the Electricity Commission and is being continued by the Authority. This review process has been underway for over two years. Following TPAG's consideration of submissions on the Discussion Paper, TPAG is required to make its recommendation to the Authority. The Authority will then consider the recommendation and make its own decision on whether a change to the TPM is justified within the current regulatory framework.

If the Authority decides that a change to the TPM is justified it will publish an Issues Paper including Draft Guidelines and Process for the development of the TPM as required under the Code.

In summary, the TPAG Discussion Paper is one step in the review process, and participants will have the opportunity to make submissions on any Issues Paper, Draft Guidelines and Process that are published should the Authority consider a change is justified. In the event that the Authority required Transpower to prepare a revised methodology, there would be opportunities to make submissions on Transpower's proposed TPM.

Given the potential impact on the overall review timetable and objective of putting in place any new transmission pricing arrangements by April 2013, the five week consultation period and advanced notice given, and the context in which the TPAG Discussion Paper is published, the Authority has decided that it will not grant the requested extension.

Yours sincerely

A handwritten signature in black ink that reads "Carl Hansen". The signature is written in a cursive, flowing style.

Carl Hansen
Chief Executive