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Roy Hemmingway
Chair
Electricity Commission
PO Box 10041
WELLINGTON

Dear Roy

HVDC GUP Application – Resolution of issues

Transpower has considered the Commission's letters of 8th March 2006 and 4th May 2006 and has had some discussions with Electricity Commission (Commission) officers on how best to proceed with the HVDC upgrade project.

Transpower is keen to progress the project and would like to minimise any delays in the approval process. We are keen to work with the Commission to achieve the above outcomes that we believe are in the best interests of New Zealand.

The Transpower Board has been appraised of your recent correspondence and some options for resolving the outstanding issues. Transpower is also aware of the heightened interest that key stakeholders, namely those participants that must pay for the HVDC assets, have in the project and its configuration. In our view it will be important that Transpower engage with these stakeholders early and often to validate data, assumptions and methods.

Establishing a framework for assessment

In view of the nature and severity of the issues raised by the Commission, Transpower believes that it will be highly desirable to establish a clear assessment framework and specifically a position on:

- the data that will be used in assessing the technical and economic merits of the project;
- the assumptions that will be used in the Grid Investment Test; and
- the analytical methods that will be used to quantify technical and economic costs and benefits.

To this end, Transpower sees merit in suspending formal work on its proposal until the above issues are resolved.

Project assessment - Transpower

Once the framework and data are established, Transpower would like an opportunity to re-evaluate its project prior to the Commission undertaking a formal approval process in accordance with the Rules. Transpower notes that the approval process will require it (Transpower) to consult on this evaluation prior to requesting approval from the Commission. It is highly desirable that Transpower has a high degree of confidence that its analysis will meet the agreed Commission's criteria for approval so that further public disagreement can be avoided.

Involvement of third parties

Transpower does not wish to be restricted in terms of communications with third parties because of process probity issues. It regards the inclusion of strongly interested parties as essential to avoid unnecessary conflict during the consultation phase. We would therefore like to propose that the discussion on data, assumptions and methods be considered ahead of the formal processes outlined in Rule 14. This is reasonable as it is expected that the economic assessment may need to be revised before consultation under Rule 14 commences. The Commission may, of course, elect to publicly consult on any aspect of the data, assumptions and methods as it feels appropriate.

Proposed approach

Transpower supports the concept of joint working groups to develop the evaluation framework and data and will commit to working cooperatively and in good faith to resolve issues.

We would encourage the establishment of a timetable for the work as a priority.

Impact of delays on the availability of HVDC Pole 1

As stated in the Grid Upgrade Plan, a key consideration of the project timing is the reliability and serviceability of the aging Pole 1 converter station components. Based on technical assessments presented in the GUP, Transpower's intention was to retire the Pole 1 converter stations in 2010. Delays in the approval process for the upgrade project (as a result of the processes outlined in this letter) may unfortunately require operation beyond this date.

Routine and fault maintenance will continue for the Pole 1 equipment. However, it is neither practical nor prudent to attempt to eliminate the many systemic risks outlined in the 2005 Grid Upgrade Plan. For the avoidance of doubt, Transpower is not planning any life extension works on the Pole 1 converters.

Way forward

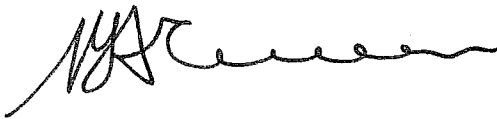
Transpower is keen to confirm a mutually acceptable process to enable the advancement and ultimate delivery of this project. Transpower estimates that the preliminary process work could be achieved in 6-12 weeks with the economic analysis taking an additional 6-12 weeks. Transpower agrees with the Commission

that a workplan should be developed. In addition, an approval timetable is required as it will influence the decisions on whether further interim grid expenditure is required and the extent of such expenditure.

Transpower suggests that a completion date of 9 June is set for the initial workplan and preliminary approval timetable.

We seek the Commission's views on the proposals in this letter. Please contact Tim George if you have any questions on the content of this letter.

Yours sincerely



Dr Ralph H Craven
Chief Executive