
From: Ralph Matthes <ralph.matthes@meug.co.nz>
Sent: Thursday, 22 December 2016 12:21 p.m.
To: Market Operations
Subject: Top Energy and Ngawha Generation Limited: request for exemption

Follow Up Flag: Follow up
Flag Status: Flagged

Dear EA Market Operations

Paragraph 124 of the application states:

124. An additional cross-subsidisation matter that needs to be addressed is whether the allocation of funding costs is not adequately dealt with by the regulatory regime referred to. Ngawha's generation has been funded by loans from Top Energy. That funding was established under a banking facility subject to a negative pledge over all the activities of the Top Energy Group. To ensure that there is no cross subsidisation in relation to the cost of these funds, Top Energy has taken advice from the BNZ (being the source of the funds at that time) and PricewaterhouseCoopers to consider what premium should be charged between the two entities. In addition, a third opinion was received from an independent consultant. All advisers advised that an appropriate premium was 100 basis points over the borrowing cost. Top Energy has applied this premium between the two companies for a number of years and intends to continue this practice. If, at any time in the future, it is decided that a change to the arrangement where funding to NGL is provided by Top Energy is appropriate, it will be to fund the NGL activities directly and therefore any issue of the potential for cross-subsidisation would be removed. At the present time it is most economical to continue with the present arrangements.

To assist us consider if the 100 basis points margin is appropriate please ask the applicant to provide:

1. The advice from BNZ, PwC and the independent consultant referred to in the above paragraph; and
2. The letter of instructions from the applicant and background material (or a description of list of those materials if that is sizable document(s)) provided to the above three advisors.

Regards
Ralph