

Disclosure notice:

14 November 2019

Transpower updates financial targets following Commerce Commission announcement

Transpower New Zealand today announces the impact on its reforecast revenue and interest costs reflecting the final decision by the Commerce Commission on Transpower's third regulatory control period (RCP3) covering the revenue years 2020-2025.

This follows the Commerce Commission's 14 November 2019 announcement setting Transpower's incremental Rolling Incentive Scheme (IRIS) Baseline Adjustment Term (IBAT).

On 22 July 2019, Transpower issued a [notification on potential forecast revenue reduction](#) based on the Commerce Commission's draft IBAT decision.

Today's notification provides an update on Transpower's final position which is a revenue reduction of, on average, 1% (\$7.5 million) per annum from its final submission position published by the Commerce Commission on 22 August 2019.

The final regulated rate of return (WACC) for RCP3 was published by the Commission on 25 September 2019 at 4.57% (Vanilla WACC 67th percentile). Transpower has adjusted its forecasts to reflect the lower interest costs achieved during the reset.

Transpower has now reviewed the overall impact of these final decisions, on targets set in the [2019/20 Statement of Corporate Intent](#) released on 28 June 2019, as follows:

Forecast Impact on SCI Financial Performance Targets (Unaudited)						
	2019/20*		2020/21		2021/22	
	SCI Target	Forecast Impact	SCI Target	Forecast Impact	SCI Target	Forecast Impact
Free funds from operations interest coverage (# of times)	3.7	3.8	4.7	5.8	4.7	5.8
Free funds from operations / Debt (%)	15.8	15.8	14.9	14.6	14.6	14.4
Debt/(Net Debt +Equity) (%)	65.5	65.5	65.5	65.7	66.1	66.3
Return on equity (%)	10.1	10.1	8.9	8.5	9.1	8.7
Return on capital employed (%)	5.8	5.7	4.6	4.1	4.8	4.2

* The Commerce Commission's revised WACC applies from 1 April 2020 and therefore impacts on Q4 of the 2019/20 financial year, ending 30 June 2020. The full year impact of the WACC change is seen from the 2020/21 pricing year.

IRIS IBAT is a technical aspect of Transpower's opex incentive scheme that determines the treatment during RCP3 of opex savings generated in its RCP2 period (2015 – 2020).

For further information, please contact:

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