



TRANSPOWER

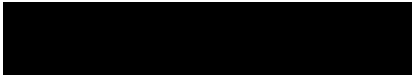
Keeping the energy flowing

Waikoukou
22 Boulcott Street
PO Box 1021
Wellington 6140
New Zealand
P 64 4 495 7000
F 64 4 495 6968
www.transpower.co.nz

Matthew Clark
Transpower and Gas Manager
Commerce Commission
Wellington

19 May 2023

By email:



Tenā koe Matthew

Transmission Pricing Methodology (TPM) – Disclosure Years 2022/23, 2023/24, and 2024/25 Funding Arrangements

As we have previously notified the Commission, Transpower is seeking a reopener for our prudent and efficient costs for the remaining years of Regulatory Control Period 3 (RCP3) as a result of the Electricity Authority's decision to change the TPM and the need to develop the accompanying Transmission Pricing System (TPS).

This follows the Commission's decisions on 7 October 2021 and 22 November 2022 to reopen our Individual Price-Quality Path (IPP) for DY20/21 and DY21/22 respectively.

We are seeking an ex-post reopener for our actual expenditure in DY22/23 and an ex-ante reopener for our forecast expenditure in DY23/24 and DY24/25 as we can now forecast those years with a high level of confidence.

This letter, and accompanying reports, provides information in support of the Electricity Authority's request to the Commission to reconsider its section 52P determination on Transpower's IPP. The Authority's request reflects that "the cost to Transpower to develop and implement the new TPM are likely to be more than de minimis." The request was made under section 54V (5) of the Commerce Act 1986 at the same time that the Authority published new TPM Guidelines (10 June 2020) and it was reiterated at the same time the Authority released a new TPM (12 April 2022).

Forecast expenditure for disclosure years 2023/24 and 2024/25

We are now in a position to produce sufficiently robust forecasts for the out-years of RCP3 as:

- We are well into the transition to business-as-usual and so have a high level of confidence about the resourcing requirements to support the new TPM.
- We have learned a lot about what is required to administer the new TPM and, where we still have transitional work, we have much more clarity on the requirements of that work.
- The project has now moved past significant and uncertain milestones (such as the Authority's Settlement Residual Allocation Methodology (SRAM) decision).

Expenditure breakdown¹

We are seeking a reopening of our IPP as follows:

Cost type	DY22/23	DY23/24	DY24/25
TPM programme operating expenditure	3,671,000	4,170,000	3,930,000
TPS investigation operating expenditure	259,000	200,000	-
TPS development capital expenditure	2,272,000	1,928,000	1,900,000
Total	6,202,000	6,298,000	5,830,000

DY22/23 spend reflects 10 months actuals and two months forecast. We will provide an update and confirmation of final DY22/23 costs (reflecting 12 months actuals) in early July via e-mail.

All forecast spend reflects our best estimate (P50) and is exclusive of any contingencies.² Additionally, forecast legal expense includes on-going and anticipated litigation. In any circumstance where Transpower is awarded costs following litigation, Transpower would report these awarded costs as other regulated revenue. This ensures any awarded costs are shared with our customers. Any pecuniary penalties imposed on Transpower will be treated in line with Transpower's Input Methodologies determination.

We did not have any expenditure on operating leases in DY22/23 and do not anticipate any in DY23/24 and DY24/25.

In Table 1 below, we set out our budgeted and expected operating expenditure (opex) for the TPM Programme for DY22/23 and our forecast opex for DY23/24 and DY24/25.

¹ All figures in this letter are reflected in nominal dollars.

² As such, there are minor differences to the attached report from Deloitte.

Table 1: TPM Programme opex – by cost area

Cost type	DY22/23 Budget	DY22/23 Actuals (to 30 April) + Forecast	DY23/24 Forecast	DY24/25 Forecast
Incidentals	3,000	2,000	-	-
Licensing	42,000	96,000	100,000	-
Core Project Team	3,175,000	2,273,000	2,606,000 ³	2,610,000
Consultants	720,000	626,000	412,000	422,000
Legal	825,000	674,000	1,051,000	898,000
Contingency	-	-	-	-
Total	4,765,000	3,671,000	4,170,000	3,930,000

Our DY22/23 TPM operating expenditure is represented by \$3,317k actuals through to 30 April and \$354k forecast for the months of May and June.

In the tables below, we set out our budgeted, actual and forecast expenditure for the TPS investigation and development for DY22/23 and our forecast expenditure for DY23/24 and DY24/25.

Table 2: TPS Investigation (opex)

Cost type	DY22/23 Budget	DY22/23 Actuals (to 30 April) + Forecast	DY23/24 Forecast	DY24/25 Forecast
Total	242,000	259,000	200,000	-

³ Uplift in Core Project Team reflects filling of vacancies that were carried for a large portion of DY23.

Table 3: TPS Development (capital expenditure)

Cost Type	DY22/23 Budget	DY22/23 Actuals (to 30 April) + Forecast	DY23/24 Forecast	DY24/25 Forecast
Requirements & Design	421,000	263,000	263,000	302,000
Build & Test	1,689,000	1,579,000	1,457,000	1,405,000
Project Management & Governance	172,000	195,000	188,000	170,000
Other (Assurance / Hardware / Incidentals)	85,000	101,000	-	-
Interest During Construction (IDC)	39,000	34,000	20,000	23,000
Contingency & Reserves	220,000	-	-	-
Total	2,625,000	2,172,000	1,928,000	1,900,000

Our DY22/23 TPS capital expenditure reflects \$1,753k actuals through to 30 April and \$419k forecast for the months of May and June.

Deloitte Independent TPM Project Review

Transpower has engaged Deloitte to provide ongoing independent assurance. On costs incurred and forecast for DY22/23, Deloitte commented:

“The TPM actual expenditure appears reasonable and consistent with Transpower’s obligation to develop the TPM, investigate systems, and administer the TPM to produce final pricing.”⁴

And in relation to forecast costs for DY23/24 and DY24/25, Deloitte noted:

“For FY24 and FY25, our procedures and conclusion are limited due these years being based on forecast expenditure information. However we can corroborate that Transpower is in a position to produce forecasts for these years with a high degree of certainty, and we are satisfied the process supporting the preparation of the these forecasts appears in line with the existing cost control practices and that governance over these forecasts is expected to be maintained. Spend for FY24 and FY25 is forecast to be broadly consistent with FY23. While the amount is consistent we observed a change in the mix of expenditure, with a progressive transition to less reliance on external contractors for FY24 and FY25, more use of internal resources, declining spend on business change and programme management and more spend on core grid pricing functions. These trends are consistent with TPM progressively moving into a business-as-usual footing.”⁵

Deloitte’s overall assessment of our expenditure in relation to our obligation to implement the TPM is:

“The TPM project has retained its cohesive project structure and effective governance model. Costs for the remaining months in FY23, and for FY24 and FY25 are forecast based on expected resourcing levels, with these expected to remain consistent with current budgeted levels. There continues to be a strong focus on

⁴ Deloitte, Transmission Pricing Methodology (TPM) Review 4 – Internal Audit Report, May 2023, page 4.

⁵ Deloitte, Transmission Pricing Methodology (TPM) Review 4 – Internal Audit Report, May 2023, page 4.

cost management and control, and project workstreams and deliverables that are transparent and traceable to statutory obligations to deliver TPM.”⁶

The Review 4 independent project report is attached for your consideration.

Next steps

We will provide the Commission with our final TPM related expenditure during DY22/23 in July 2023. As this is only for the final two months of the year, we are not anticipating our expenditure to vary significantly from that set out above.

We consider the above information, including independent review, is sufficient to allow for an ex-ante allowance adjustment to Transpower’s IPP determination for DY23/24 and DY24/25.

Please do not hesitate to contact me should you have any questions.

Nāku noa, nā



Joel Cook

Head of Regulation

⁶ Deloitte, Transmission Pricing Methodology (TPM) Review 4 – Internal Audit Report, May 2023, page 4.