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Commerce Commission
Wellington

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Tenā koe Matthew

Transmission Pricing Methodology (TPM) – Disclosure Year 2021/22 Funding Arrangements

As we have previously notified the Commission, Transpower is seeking a reopener for our prudent and efficient costs incurred during the disclosure year (DY) 2021/22 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 decision on 7 October 2021 to reopen our Individual Price-quality Path (IPP) for DY20/21.

This letter, and accompanying reports, provides information in support of the Electricity Authority's requests to the Commission to reconsider its section 52P determination on Transpower's IPP.¹ The Authority's requests reflect that "the cost to Transpower to develop and implement the new TPM are likely to be more than de minimis." These requests were 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 again at the same time the Authority released a new TPM (12 April 2022).

For DY21/22, we are seeking a reopening of our IPP for:

- operating expenditure (opex) of \$4.4m for TPM Programme
- operating expenditure (opex) of \$65k for TPS Investigation
- capital expenditure (capex) of \$2.065m for TPS Development (all capex will be commissioned in DY21/22)

Our expenditure in each area is below our DY21/22 TPM Programme budget. In the rest of this letter we provide more detail on our expenditure during DY21/22 and our proposed next steps.

¹ Authority's letters to the Commission, [Development of a proposed new transmission pricing methodology \(TPM\)](#), 10 June 2020 and 'A new Transmission Pricing Methodology', 12 April 2022.

DY 21/22 expenditure breakdown and comparison to budgets

In Tables 1 and 2 below, we have set out our budgeted and actual plus June 2022 forecast opex for the TPM Programme for DY21/22. The first table breaks this down by cost type, while the second table provides a breakdown of incurred and forecast. We did not have any expenditure on operating leases in DY21/22.

Table 1: TPM Programme opex – by cost area

Cost Type	Budgeted	Actuals (to 31 May) + Forecast
Incidentals	5,501	10,632
Licensing	0	173,885
Core Project Team	3,678,343	2,331,560
Consultants	352,497	848,374
Legal	734,490	958,423
Contingency	229,169	30,701
Total	5,000,000	4,353,575

Table 2: TPM Programme opex – actuals and forecast

FY22 Expenditure	Total
Actual (to 31 May 2022)	3,991,029
Forecast June	331,845
Incurred + Forecast	4,322,874
Contingency	30,701
Total	4,353,575

In the table below, we set out our budgeted and actual plus the June 2022 forecast opex and capex for the TPS development and investigation for DY21/22.

Table 3: TPS Investigation (Opex)

Cost Type	Budgeted	Actuals (to 31 May)	Actuals + Forecast
Total	182,800	29,953	65,000

Our FY21/22 opex actuals are much lower than budgeted due to resourcing challenges. This has resulted in the project timeframe being extended into next financial year.

Table 4: TPS Development (Capex)

Cost Type	Budgeted	Actuals (to 31 May)	Actuals + Forecast
Requirements & Design	543,600	303,698	323,000
Build & Test	1,307,600	1,315,284	1,475,000
Project Management & Governance	170,400	179,736	195,000
Other (Assurance / Hardware / Incidentals)	60,000	44,731	45,000
Interest During Construction (IDC)	38,700	23,727	24,000
Contingency & Reserves	302,400	0	0
Total	2,422,700	1,867,176	2,062,000

Deloitte Independent TPM Project Review

To support the Commission's consideration of our DY21/22 spend, Transpower has engaged Deloitte to provide ongoing independent assurance. Deloitte's overall assessment of our opex for DY21/22, as set out in 'Review 3 report'², is:

*"the TPM actual expenditure appears reasonable and consistent with Transpower's obligation to develop the TPM, investigate systems, and administer the TPM to produce indicative pricing. Transpower has underspent relative to the original FY22 budget and is retaining a reasonable level of contingency to deal with unexpected costs for the remaining two months of FY22"*³

Deloitte was also asked to review our proposed Phase 2 expenditure. This report focused more on our forecast TPS costs. Deloitte noted:

*"The approach for forecasting the Technology Costs for FY22 is robust and follows an industry standard approach. The main risk comes from an incomplete set of user stories and/or under-estimating the effort required to deliver the defined user stories."*⁴

The Phase 2 and Review 3 independent project reports are attached for your consideration. Note, the Review 3 report is subject to management sign-off, we do not expect any material changes to it and we will provide a final version during the week beginning 20 June.

Next steps

We will provide the Commission with our final TPM related expenditure during DY21/22 in July 2022. However, as this is just for the month of June, the Commission should have confidence that our expenditure will not vary significantly from that set out above.

² Note – Deloitte were engaged to deliver the Phase 3 report in April 2022, the figures in the tables above have been updated to include May actuals.

³ Deloitte, Transmission Pricing Methodology (TPM) Review 3 - [Draft] Internal Audit Report, May 2022, page 3.

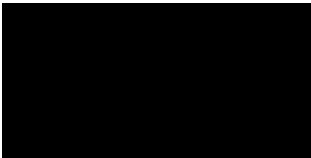
⁴ Deloitte, Transmission Pricing Methodology (TPM) Review – Phase 2 Internal Audit Report, November 2021, page 6.

We appreciate that the Commission’s position is that it would like to set an ex ante allowance for Transpower for the remaining years of RCP3 when “*Transpower is able to produce accurate forecasts of its proposed TPM development expenditure*”.⁵ As I noted in an email on 10 March 2022, our forecast expenditure for the remainder of RCP3 are still highly uncertain for a number of reasons, including, but not limited to, the Authority’s decision on the [Settlement Residual Allocation Methodology \(SRAM\)](#). The Authority has signalled that it will consult on this in the third quarter of 2022, however the Authority is yet to indicate when it expects to make a decision.⁶ This affects the scope of the TPS development.

The uncertainty in our forecast is demonstrated in our TPM programme and TPS programme forecasts set out in Annexes A and B. Our forecast opex range for FY22/23 to FY24/25 is \$9.9m to \$15.4m, and our forecast capex range is \$6.0m to \$10.5m.

We hope to be in a position in early 2023 to provide the Commission with more accurate forecasts across our opex and capex.

Nāku noa, nā



Joel Cook

Head of Regulation

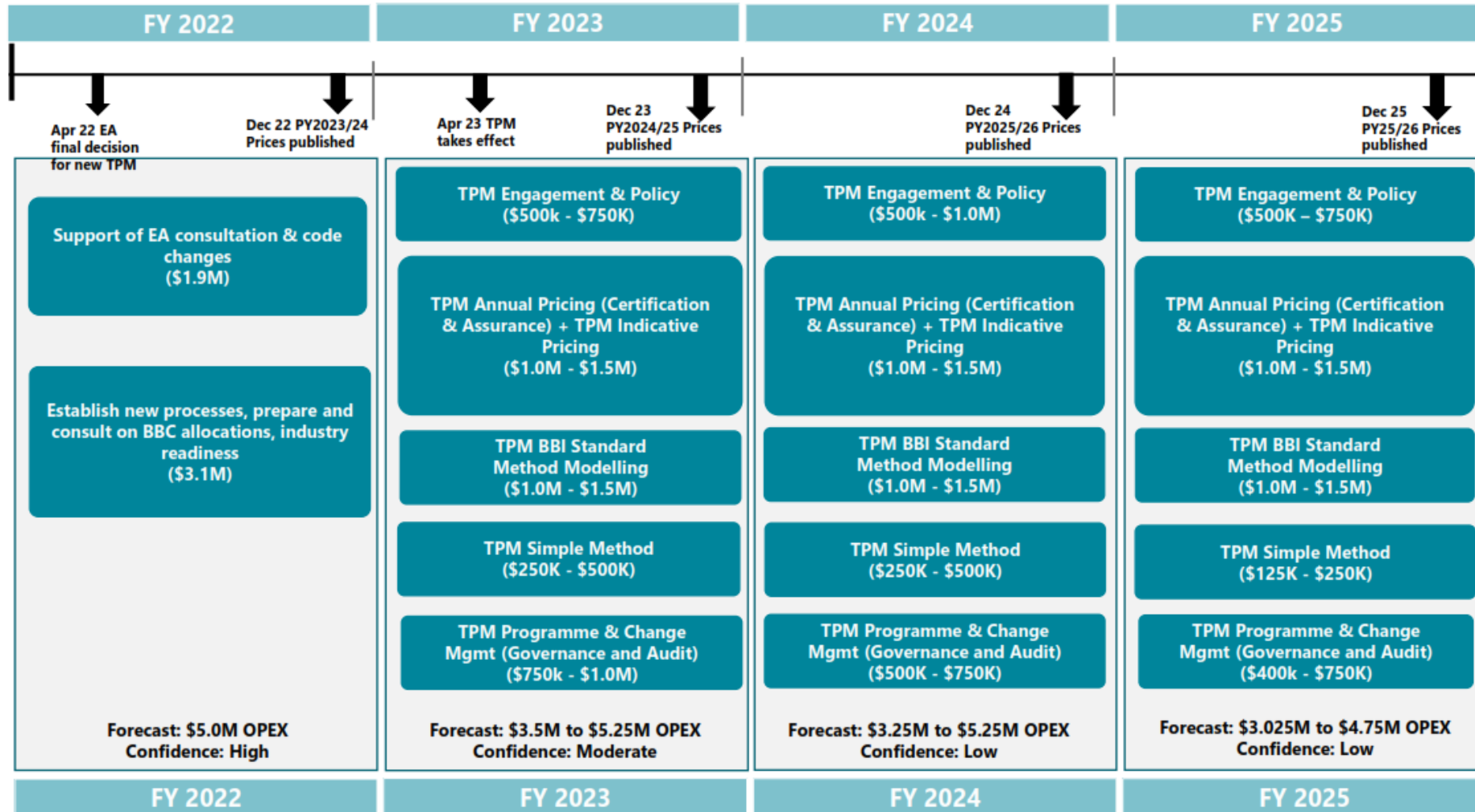
⁵ Commission, [Transpower-IPP-reconsideration-to-allow-for-recovery-of-TPM-development-costs-Final-reasons-7-October-2021.pdf \(comcom.govt.nz\)](#)

⁶ Authority, [Transmission Pricing Methodology 2022](#) – Decision, April 2022.

Annex A

TPM Programme High Level Plan FY 22 – 25

(*does not include TPS Systems investigation, capex)



Annex B

TPS/TPM Roadmap – updated Mar '22

RCP3					
		FY21/22 TPS3 (TPM1) (\$0.2M OPEX / \$2.1M CAPEX)	FY22/23 TPS4 (TPM2) (\$0.3M OPEX / \$2.5M to \$3.5M CAPEX)	FY23/24 TPS5 (TPM3) (\$0.35M OPEX / \$2.0M to \$4.0M CAPEX)	FY24/25 TPS6 (TPM4) (\$1.5M to \$3.0M CAPEX)
DATES		<div>◆</div> <div>31/3/2022 EA final decision for TPM</div> <div>Systems Discovery (TPM2 Investigation – arch & plan)</div> <div>Forecast: \$0.18M OPEX Confidence: Moderate</div> <div>30/6/2022 TPS 3 Deployed</div>	<div>◆</div> <div>30/11/2022 PY23/24 Prices published</div> <div>◆</div> <div>1/2/2023 EA expected to announce SRAM decision</div> <div>◆</div> <div>1/4/2023 TPM takes effect</div> <div>Systems Discovery (TPM3 Investigation – arch & plan)</div> <div>Forecast: \$0.3M OPEX Confidence: Moderate</div> <div>30/6/2023 TPS 4 Deployed</div>		
NEW TPM		<div>Systems Development (TPM1) (simpler TPM components e.g. Connection Charges)</div> <div>Forecast: \$2.1M CAPEX Confidence: High</div>	<div>Systems Development (TPM2) (more complex components of the TPM e.g. Simple and Standard Method BBC allocation system)</div> <div>Forecast: \$2.5M to \$3.5M CAPEX Confidence: Moderate</div>	<div>Systems Development (TPM3) (Model Tool Evaluation, Price Forecasting Tool / Customer Portal / Case Mgmt Modernisation)</div> <div>Forecast: \$2.0M to \$4M CAPEX Confidence: Low</div> <div>Systems Discovery ^ (TPM4/TPS6 Investigation – arch & plan)</div> <div>Forecast: \$0.15m OPEX Confidence: Moderate</div>	<div>Systems Development (TPM4) (Pricing ecosystem cohesiveness / Deliver upgrades and enhancements to TPS)</div> <div>Forecast: \$1.0 to 2.0M CAPEX Confidence: Low</div> <div>Systems Development (TPM4/TPS6) ^ (Loss & Constraint Excess / (SRAM))</div> <div>Forecast: \$0.5 to 1.0M CAPEX Confidence: Low</div>

^ awaiting policy confirmation from the Electricity Authority.