

Reconsideration of Transpower's individual price-quality path determination for major capex projects

Final decision

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Executive summary

- X1 This document sets out the reasons for our decision to reopen Transpower's individual price path (**IPP**)¹ to include the revenue impact of major capex projects (**MCPs**) being commissioned in the current regulatory control period (**RCP3**).
- X2 Transpower commissioned the Clutha-Upper Waitaki-Lines Project (**CUWLP**) in April 2022 and plans to commission the Bombay-Otahuhu Regional MCP (**BOBOTA**) and one component of the Waikato and Upper North Island Voltage management MCP (**WUNI**) in RCP3. The aggregate forecast value of commissioned assets is approximately \$186 million.
- X3 Each of the MCPs has been approved for investment. The former Electricity Commission approved CUWLP on 9 August 2010,² the Commerce Commission approved WUNI on 23 September 2020,³ and BOBOTA on 19 March 2021.⁴
- X4 Once an MCP has been approved by the Commerce Commission,⁵ the Transpower Input Methodologies (**IMs**) require us to reconsider and, if appropriate, amend Transpower's IPP to account for the revenue impact of the approved projects.⁶ The IPP sets out the process we must follow when reconsidering and amending the price path. Our decision to amend the IPP to include the revenue impact of these projects allows Transpower to start recovering the value of its investment through transmission charges in RCP3.
- X5 We have reconsidered and decided to amend the IPP to take account of the revenue impact of the three MCPs in RCP3.
- X6 As a result of our decision:

¹ Commerce Commission *Transpower Individual Price-Quality Path Determination 2020 (IPP)*, available at https://comcom.govt.nz/_data/assets/pdf_file/0031/267448/Consolidated-Transpower-individual-price-quality-path-determination-2020-7-October-2021.pdf.

² Electricity Commission *Final Decision – Transpower's Lower South Island Renewables Investment Proposal* (9 August 2010) available at <https://www.ea.govt.nz/assets/dms-assets/7/7909Final-decision.pdf>.

³ Commerce Commission *Decision and reasons on Stage 1 of Transpower's Waikato and Upper North Island Voltage Management staged major capex project* [2020] NZCC 20 (23 September 2020), available at https://comcom.govt.nz/_data/assets/pdf_file/0029/225497/2020-NZCC-20-Waikato-and-Upper-North-Island-Voltage-Management-major-capex-project-stage-1-Decisions-and-reasons-paper-23-September-2020.pdf.

⁴ Commerce Commission *Decision and Reasons on Transpower's Bombay Otahuhu Regional major capex project* [2021] NZCC 2 (19 March 2021) available at https://comcom.govt.nz/_data/assets/pdf_file/0037/248995/Decision-and-reasons-on-TranspowerE28099s-Bombay-Otahuhu-Regional-major-capex-project-19-March-2021.pdf.

⁵ Or the Electricity Commission, as was the case for CUWLP.

⁶ Commerce Commission, *Transpower Input Methodology determination 2010 (Transpower IM)*, 29 January 2020, at clause 3.7.4(4). Available at https://comcom.govt.nz/_data/assets/pdf_file/0020/91181/Transpower-input-methodologies-determination-2010-consolidated-29-January-2020.pdf; Transpower IM, above n 1, at clause 3.7.5. Amending the IPP is also referred to as 'reopening' the IPP.

- X6.1 Transpower's smoothed maximum allowable revenue (**SMAR**) will increase by \$10.6 million in the pricing year 2023/24 and \$10.7 million in the pricing year 2024/25; and
- X6.2 Transpower is able to recover the revenue from assets commissioned in the pricing years 2020/21 to 2022/23 in the wash-up calculation.
- X7 We give effect to our decision through a determination amending Transpower's IPP, published alongside this reasons paper.

1. Introduction

Purpose of this paper

1.1 This paper sets out:

- 1.1.1 our reconsideration of Transpower's IPP to include the revenue impact of MCPs being commissioned in the regulatory period of 2020 to 2025 (**RCP3**); and
- 1.1.2 the reasons for our decision to amend the IPP.

Structure of this paper

- 1.2 Chapter 1 provides an overview of the relevant MCPs and reasoning for the Commission's reconsideration of the IPP and decision to amend the IPP.
- 1.3 In Chapter 2 we set out our legal framework and criteria for reconsidering Transpower's price path in respect of major capex projects.
- 1.4 In Chapter 3, we set out our decision and the proposed amendment to Schedule A of the IPP determination.
- 1.5 Alongside this reasons paper we have published an amendment determination to give effect to our decision to amend the IPP to account for the revenue impact of the approved MCPs.

The Transpower IMs require us to reconsider the IPP to take account of approved major capex projects

- 1.6 We determine Transpower's IPP on a forecast, ex-ante basis. We do not include the revenue impact of unapproved MCPs in the IPP when it is determined. This is because the timing and cost of any potential MCP is unknown when the IPP is determined.
- 1.7 Where Transpower seeks to undertake major investment, the Transpower Capital Expenditure Input Methodology Determination (**Capex IM**) allows Transpower to submit MCPs for our approval at any time during an RCP.⁷ As set out above, each of the relevant MCPs considered in this reopener has been approved for investment.⁸
- 1.8 Following the approval of an MCP, the Transpower IMs require us to reconsider Transpower's IPP to allow for the revenue impact of those approved projects.

⁷ Commerce Commission, Transpower Capital Expenditure Input Methodology Determination 2012 (Principal Determination) (**Capex IM**), 29 January 2020, at cl. 3.3.3(3). Available at https://comcom.govt.nz/_data/assets/pdf_file/0026/88280/Transpower-capital-expenditure-input-methodology-determination-consolidated-29-January-2020.pdf.

⁸ See paragraph X3.

We have decided to amend Transpower's IPP

- 1.9 We have decided to reopen the IPP to take account of the revenue effect of the three MCPs commissioned by Transpower in RCP3. We give effect to this decision through a determination that amends Transpower's forecast maximum allowable revenue (**MAR**) and SMAR values in Schedule A of the IPP.

Transpower plans to commission three Major Capex Projects in RCP3

- 1.10 Within RCP3, Transpower has either commissioned or intends to commission the following MCPs:

- 1.10.1 Clutha-Upper Waitaki-Lines Project (**CUWLP**);
- 1.10.2 Bombay-Otahuhu Regional MCP (**BOBOTA**); and
- 1.10.3 one of the outputs of the Waikato and Upper North Island Voltage management MCP (**WUNI**).

Clutha-Upper Waitaki-Lines Project (CUWLP)

- 1.11 The former Electricity Commission approved this project in August 2010. At approval the project was titled *Lower South Island Renewables Investment Proposal* and Transpower later renamed this project as CUWLP.⁹
- 1.12 The objective of CUWLP was to increase the capacity of the transmission lines in the Clutha and Upper Waitaki region and allow increased export of electricity from the Lower South Island. This main driver for the project was to be able to export the significant expected outputs from wind farms that were being considered in the Lower South Island, at that time.
- 1.13 The expected generation projects did not proceed so Transpower only delivered the outputs required to improve the reliability of the network (**reliability outputs**). Transpower commissioned two reliability outputs of CUWLP in RCP1 and put the project on hiatus until 2019. Transpower restarted the project in December 2019 under a three-party agreement between Contact Energy, Meridian Energy and Transpower.¹⁰
- 1.14 In RCP3, Transpower commissioned two of the remaining reliability outputs. In this decision we reconsider the IPP to take into account the revenue impact of those two outputs commissioned in RCP3.

⁹ Electricity Commission *Final Decision – Transpower's Lower South Island Renewables Investment Proposal* (9 August 2010) available at <https://www.ea.govt.nz/assets/dms-assets/7/7909Final-decision.pdf>.

¹⁰ Transpower, *Disclosure notice: 3 December 2019 Work to recommence on Transpower's Clutha Upper Waitaki Lines Project*. Available at <https://tpow-corp-content.catalystdemo.net.nz/sites/default/files/news-articles/attachments/Disclosure%20notice%20Work%20to%20recommence%20on%20Transpower%E2%80%99s%20Clutha%20Upper%20Waitaki%20Lines%20Project.pdf>.

Waikato and Upper North Island Voltage Management (WUNI)

- 1.15 We approved stage 1 of WUNI in September 2020.¹¹ This purpose of this project was to install two major assets to increase the transmission capacity into the Waikato and Upper North Island region.
- 1.16 Transpower plans to commission one of the assets in 2023 and is assessing a non-transmission solution to replace the functions of the second asset. A non-transmission solution is an alternative to an investment in the grid.¹² Often this is provided by third parties. Grid scale batteries are one example of a non-transmission solution.

Bombay-Otahuhu Regional Major Capex Project (BOBOTA)

- 1.17 In March 2021, we approved the BOBOTA project and subsequently approved an amendment to this project in September 2021.¹³ This project rationalises the transmission assets in the Bombay-Otahuhu region and increases the capacity and reliability of the network supplying that region.
- 1.18 Transpower plans to commission this project by 2024.

Value of assets being commissioned in RCP3

- 1.19 1.2.19Table 1Table 1, below, shows the value of commissioned assets that Transpower expects to deliver in RCP3.

Table 1: Value of commissioned assets from MCPs (\$ million)

Major capex project	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025	Total
CUWLP	42.7	41.2	-2.0			81.9
WUNI			45.6	7.2		52.8
BOBOTA			31.9	1.3	0.1	33.3
Total	42.7	41.2	75.5	8.5	0.1	185.8

¹¹ Commerce Commission, *NZCC 20 Waikato and upper North Island Voltage Management major capex project stage 1 - Decision and reasons paper*, 23 September 2020 (WUNI MCP). Available at <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpower-capital-investment-proposals/transpower-major-capital-proposal/waikato-and-upper-north-island-voltage-management>.

¹² Capex IM, above n 7, at clause 1.1.5.

¹³ Commerce Commission, *Decision and reasons paper on Transpower's Bombay Otahuhu major capex project*, 19 March 2021 and *Amending the major capex project outputs for the Bombay Otahuhu regional major capex project decision and reasons paper*, 10 September 2021 (BOBOTA). Respectively available at https://comcom.govt.nz/_data/assets/pdf_file/0020/265142/Amending-the-major-capex-project-outputs-for-the-Bombay-Otahuhu-regional-major-capex-project-decision-and-reasons-paper.pdf and https://comcom.govt.nz/_data/assets/pdf_file/0037/248995/Decision-and-reasons-on-TranspowerE28099s-Bombay-Otahuhu-Regional-major-capex-project-19-March-2021.pdf.

2. Legal framework for reconsidering and amending the IPP for approved MCPs

Projects approved by the former Electricity Commission may be treated as approved by the Commerce Commission

2.1 In late 2010, the Commerce Commission superseded the Electricity Commission in relation to its role of approving Transpower's MCPs (formerly referred to as Grid Upgrade Projects).

2.2 Clause 1.1.4(1) of the Capex IM specifies that an MCP approved by the Electricity Commission under Part F of the Electricity Governance Rules 2003 (**EGR**)¹⁴ will be treated as a MCP that has been approved by the Commission under clause 3.3.5 of the Capex IM. Clause 1.1.4(1) states:

1.1.4 Transitional provisions

(1) A major capex project approved by-

(a) the Electricity Commission under Part F of the Electricity Governance Rules 2003; or

(b) the Commission in accordance with s 54R(3)(b) of the Act,

will be treated for the purposes of this determination as a major capex project that has been approved by the Commission under clause 3.3.5.

2.3 Since CUWLP was approved by the Electricity Commission under Part F of the EGR, we can treat this project as if it were approved under the Capex IM. This means that all Transpower IMs, Capex IMs and the IPP rules relating to MCPs also apply to this project.

The price path and quality standards may only be reconsidered in limited circumstances

2.4 In November 2019, we determined Transpower's IPP under the Transpower IMs on a forecast, ex-ante basis to cover RCP3.¹⁵

2.5 Once determined, Transpower's IPP's price path and quality standards may only be amended in a material way in accordance with section 52Q of the Commerce Act 1986 (**Act**). Section 52T(1)(c)(ii) of the Act requires that the relevant IMs set out the requirements for the Commission to reconsider and amend price-quality paths.

2.6 The requirements for reconsidering and amending Transpower's IPP are specified in subpart 7 of Part 3 of the Transpower IMs.

¹⁴ The Electricity Industry Participation Code (EIPC) replaced the EGR in 2010. The EIPC is available at <https://www.ea.govt.nz/code-and-compliance/the-code/>.

¹⁵ IPP, above n 1.

The Transpower IMs require us to reconsider the IPP in relation to major capex projects

- 2.7 In each remaining disclosure year of a regulatory period, except the last year, we are required to reconsider the IPP to take into account the revenue impact of approved MCPs. Clause 3.7.4(4) of the Transpower IMs states:

The Commission must reconsider, in each disclosure year commencing in a regulatory period, save the last disclosure year, the IPP in respect of the remaining disclosure years commencing in the regulatory period to take account of-

- (a) the revenue impact of major capex approved by the Commission; and
- (b) the revenue impact of any base capex approved by the Commission for a listed project,

on the forecast SMAR.

We have the discretion to reopen and amend the IPP3 price path

- 2.8 After reconsidering Transpower's IPP, the Commission may decide to amend it to take account of the revenue impact of the approved MCPs, under clause 3.7.5 of the Transpower IMs.
- 2.9 Clause 3.7.5 of the Transpower IMs requires that we must not amend the IPP by more than is reasonably necessary to take account of the change in costs arising from the amendment to forecast SMAR, as a result of the approved MCPs.
- 2.10 In the exercise of our discretion under clause 3.7.5, we approach our decision to amend the IPP as follows:
- 2.10.1 first, we assess whether there is a need to reopen the price path. For example, we consider whether any significant outputs of the approved MCP will be commissioned within the RCP, the timing of the expected commissioning, and the impact of not reopening the IPP; and
 - 2.10.2 If we consider there is a need to reopen the price path under clause 3.7.5, we quantify the extent of changes required to Transpower's forecast SMAR, set out in Schedule A of the IPP.
- 2.11 If we decide to reopen the price path, then we can amend the IPP as set out in clause 3.7.5 of the Transpower IMs.

Consultation on reopening the IPP for MCPs

- 2.12 Section 52Q of the Act sets the following requirements for amending a determination under s 52P:
- (1) A section 52P determination may be amended in a material way only after the Commission has consulted with interested parties but may be amended in a non-material way without prior consultation.
 - (2) However, the Commission is not required to conduct an inquiry before amending a determination.

- (3) As soon as practicable after making an amendment, the Commission must give to each supplier to whom the determination relates notice of the amendment and where it is available.

2.13 Section 52Q (1) of the Act requires that we consult with interested parties if we intend to amend the IPP in a material way.

2.14 In making our decision, we have considered stakeholder submissions and cross-submissions received in relation to our major capex approval decisions.¹⁶

The IPP determination sets out the process for reconsidering the price path

2.15 The IPP sets out the following information and process requirements for reconsidering the price path:

- 2.15.1 Clause 8.3.2 of the IPP requires us to advise Transpower that we are reconsidering the IPP for the purpose of clause 3.7.4(4) of the Transpower IM;
- 2.15.2 Clause 8.3.3 of the IPP requires Transpower to provide to us and publicly disclose, no later than 80 working days after the end of the prior complete disclosure year, for each of the remaining complete pricing years of RCP3:
- a) a proposed updated forecast MAR in accordance with clause 30 of the IPP;
 - b) a proposed updated forecast SMAR calculated in accordance with clause 30;¹⁷ and
 - c) where applicable, the updated forecast EV adjustment amounts calculated in accordance with clauses 32.2 and 32.3 and Schedule D, Formula I (Forecast EV adjustment);
- 2.15.3 Clause 8.4 of the IPP states that Transpower must apply the calculations required in clause 30 and Schedule D of the IPP, and must include supporting information for its calculations; and
- 2.15.4 Clause 8.6 of the IPP states that if we reconsider and determine that Transpower's IPP should be amended,¹⁸ we will determine updated amounts for forecast MAR, forecast SMAR and, where applicable, forecast EV adjustment, after considering Transpower's proposed amounts for updated forecast MAR, updated forecast SMAR, and updated forecast EV adjustment provided to the Commission in accordance with clauses 8.3 and 8.4 of the IPP.

¹⁶ CUWLP, above n 2; WUNI, above n 3; BOBOTA, above n 4.

¹⁷ MAR means maximum allowance revenue and SMAR is MAR converted to a smooth price path over the RCP.

¹⁸ Under clauses 3.7.4 and 3.7.5 of the Transpower IMs, above n 6.

- 2.16 Clause 30.1 of the IPP requires Transpower to provide an update of a forecast MAR and forecast SMAR for each remaining complete pricing year in RCP3, calculated in a manner consistent with the approach for calculating the forecast SMAR for the full period of RCP3, including, where applicable, to take account of the incremental revenue effect of:
- 2.16.1 forecast major capex approved by the Commission in the most recently completed disclosure year;
 - 2.16.2 base capex approved by the Commission in the most recently completed disclosure year relating to one or more of the listed projects in Schedule I; and
 - 2.16.3 an updated forecast EV adjustment calculated for the forecast MAR in accordance with clause 32.

Transpower can recover the revenue for 2021-2023 in the wash-up calculation

- 2.17 Through the wash-up calculation, Transpower can retrospectively recover revenue, relating to the approved MCPs for pricing years before the relevant amendment to the IPP.¹⁹ The wash-up calculation corrects for any over or under recovery through adjustments to the EV account.²⁰
- 2.18 For the purposes of this decision, the wash-up calculation allows Transpower to recover the uncollected revenue from 2020/21 to 2022/23.
- 2.19 The Transpower IPP sets out the requirements for the wash-up calculation, as follows:
- 2.19.1 clause 9 requires Transpower to annually calculate a wash-up in accordance with clause 29;
 - 2.19.2 clause 29 sets out the various inputs that Transpower must use in calculating the wash-up. Clause 29.1.1 requires Transpower to use the approach and formulae specified in Schedule E; and
 - 2.19.3 Schedule E sets out each ‘building block’ of the wash-up calculation.

¹⁹ Schedule E of Transpower IPP, above n 1.

²⁰ Commerce Commission, Transpower’s individual price-quality path from 1 April 2020 – Decisions and reasons paper, 29 August 2019, at X45.5. Available at <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpowers-price-quality-path/setting-transpowers-price-quality-path-from-2020?target=documents&root=102836>.

3. Our decision is to reopen Transpower's IPP

Procedural requirements

- 3.1 In accordance with the requirements set out in clause 8.3.2 the IPP, we advised Transpower of our intention to reconsider the price path in respect of major capex projects approved in RCP3 in July 2022.²¹
- 3.2 As required by clause 8.3.3 of the IPP, Transpower provided us with the proposed updated forecast MAR, the proposed updated SMAR and the updated forecast EV adjustments on 6 October 2022.²²
- 3.3 We are satisfied that Transpower's updated forecast MAR and SMAR, wash-up building blocks and EV adjustments meet the information and calculation requirements set out in clauses 8.4, 29 and 30 of the IPP.

We have decided to reopen Transpower's IPP

- 3.4 Having reviewed the information and calculations Transpower provided to us, we have reconsidered and decided to amend the IPP for RCP3, under clauses 3.7.4 and 3.7.5 of the Transpower IMs.
- 3.5 We considered whether an alternative to amending the price path could achieve the same outcomes. One option we considered is to allow Transpower to recover the revenue in the wash-up calculation, instead of amending the IPP. The wash-up calculation rolls forward recovery of any uncollected revenue into RCP4. We consider that amending the price path in RCP3 is the most appropriate option and will help reduce the risk of a price shock for consumers or other unexpected outcome for Transpower's revenue in RCP4, which might otherwise occur under the wash-up alternative.
- 3.6 To amend the IPP, we determined the updated the amounts for forecast MAR, forecast SMAR and forecast EV adjustment in accordance with clause 8.6 of the IPP.
- 3.7 Table 2 below shows the value of commissioned assets, actual and forecast as appropriate, the incremental MAR and SMAR and the wash-up building block calculations due to the value of commissioned assets. As noted in Table 2:
 - 4.7.1 Transpower plans to commission the major outputs of the WUNI and BOBOTA project by March 2023. Some additional outputs of these two MCPs are forecast to be commissioned by March 2025; and

²¹ Email from Matthew Clark (Transpower and Gas Manager of the Commerce Commission) to Joel Cook (Head of Regulation of Transpower) regarding IPP reconsideration to take account of revenue impact for approved MCPs (5 July 2022).

²² Email from Calum Waugh (Transpower) to Matthew Clark (Transpower and Gas Manager of the Commerce Commission) regarding IPP reconsideration to take account of revenue impact for approved MCPs (6 October 2022).

- 4.7.2 Transpower commissioned one output of CUWLP in 2021 and the other in 2022 and aims to complete the remaining works by March 2023.
- 3.8 Based on our decision, Transpower will recover the revenue impact of the above commissioned assets, as follows:
 - 4.8.1 revenue from April 2020 to March 2023 will be recovered through the wash-up calculation. This revenue will be accrued in the EV account and rolled forward into the RCP4 MAR and SMAR; and
 - 4.8.2 revenue from April 2023 to March 2025 will be recovered through an increase in MAR and SMAR for RCP3. This increase is reflected in Table 3 below and will be included in Schedule A of the IPP through the amendment determination set out at Attachment A to this paper.

The incremental revenue from MCPs

- 3.9 To give effect to our decision in relation to RCP3, we will amend Schedule A of the IPP determination as shown in Table 3 below. There is no amendment determination required to give effect to our decision in relation to the revenue to be recovered through the wash-up calculation.
- 3.10 The quantum of the additional revenue for the remaining pricing years of RCP3 is \$21.3 million. This reopener will increase Transpower's annual revenue by 1.29%.

Table 2: Forecast commissioning. incremental MAR and SMAR, and wash-up adjustments (\$million)

Major capex project		31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Bombay-Otahuhu regional	Forecast Commissioning			31.9	1.3	0.1
	Incremental impact on forecast MAR				1.8	1.9
	Incremental impact on forecast SMAR				1.8	1.8
	Wash-up building blocks					
Waikato Upper North Island Voltage Management (Stage 1)	Forecast Commissioning			45.6	7.2	
	Incremental impact on forecast MAR				2.8	3.1
	Incremental impact on forecast SMAR				2.9	2.9
	Wash-up building blocks					
CUWLP	Forecast Commissioning	42.7	41.2	-2.0		
	Incremental impact on forecast MAR				4.3	4.5
	Incremental impact on forecast SMAR				4.4	4.4
	Wash-up building blocks	0.51	3.15	3.2		
Total	Incremental impact on forecast MAR				8.9	9.4
	Incremental impact on forecast SMAR				9.1	9.1

Table 3: IPP Schedule A: Summary of forecast MAR and forecast SMAR

Forecast MAR applied to pricing years of RCP3 ending	Forecast MAR is calculated based on building block values for the disclosure year ending	Initial determined value of forecast MAR for pricing year	Incremental update to forecast MAR determined in 2020	Incremental update to forecast MAR determined in 2021	Incremental update to forecast MAR determined in 2022	Incremental update to forecast MAR determined in 2023	Total forecast MAR applicable to the pricing year (sum of amounts in columns 3 to 7)	Forecast SMAR applicable to the pricing years in RCP3
[Column 1]	[Column 2]	[Column 3]	[Column 4]	[Column 5]	[Column 6]	[Column 7]	[Column 8]	[Column 9]
31 March 2021 (Year 1)	30 June 2021	\$810.6 million	N/A	N/A	N/A	N/A	\$810.6 million	\$788.7 million
31 March 2022 (Year 2)	30 June 2022	\$795.6 million	\$X.X million	N/A	N/A	N/A	\$795.6 million	\$798.8 million
31 March 2023 (Year 3)	30 June 2023	\$790.9 million	\$X.X million	\$X.X million	N/A	N/A	\$790.9 million	\$809.0 million
31 March 2024 (Year 4)	30 June 2024	\$821.3 million	\$X.X million	\$X.X million	\$X.X million \$8.9 million	N/A	\$821.3 million \$830.2 million	\$819.0 million \$828.1 million
31 March 2025 (Year 5)	30 June 2025	\$824.4 million	\$X.X million	\$X.X million	\$X.X million \$9.4 million	\$X.X million	\$824.4 million \$833.8 million	829.3 million \$838.4 million

