

AoG Consultancy Services Order



1) Purpose and background to Consultancy Services Order

- 1.1) The Authority is responsible for setting Transmission Pricing Methodology (TPM) guidelines (guidelines) for Transpower to follow in developing the TPM, which Transpower must apply in allocating the costs for transmission services. The Authority is reviewing the guidelines to establish whether a change to the guidelines, and therefore to the TPM, can better meet the Authority's statutory objective.
- 1.2) The Authority intends to prepare a cost-benefit analysis (CBA) to support a proposed change to the guidelines. The CBA will be internally-led by Authority staff, with an external adviser (the Provider) undertaking most of the work in close collaboration with staff, and with another external adviser (CBA Reviewer) peer reviewing the work at each step.
- 1.3) The Authority will have responsibility for the CBA, and will approve the final approach, and inputs and assumptions. The Authority's responsibility for the CBA means, on release of the CBA, the communications material will state "the Authority has developed a CBA" and the name of the Provider will not be attached to the CBA nor to the description of the analysis. In presenting the CBA in consultation, the Provider could be called upon to explain the assumptions, logic, and technique (so would be known to have provided advice and support to the Authority).
- 1.4) The CBA needs to be accurate, defensible, pragmatic and fit-for-purpose, reflecting the fact that the Authority is preparing guidelines for a TPM, not the TPM itself.

Overview of the Provider role

- 1.5) As an overview, the Provider will:
 - (a) prepare recommendations for the Authority on the CBA methodology and approach
 - (b) implement and write up the selected CBA methodology
 - (c) present the CBA to the Authority's Board
 - (d) support the Authority in presenting the CBA and responding to questions about it in public forums
 - (e) support the Authority in providing a written response to submissions the Authority receives on the CBA as required
 - (f) provide a revised final version of the CBA if changes prove desirable following the review of submissions received

- (g) provide other assistance with the development of the TPM guidelines as required.
- 1.6) The Provider will prepare the CBA (referred to in clause 1.5(a), (b) and (c)) in three stages:
 - (a) **Step 1:** Prepare a recommendation on the high-level methodology or methodologies that the Provider intends to use in undertaking the CBA.
 - (b) **Step 2:** Elaborate on the CBA methodology/methodologies that will be used and identify the expected inputs, assumptions, sensitivities and scenarios that will be required.
 - (c) **Step 3:** Undertake the substantive analysis and compile the CBA.
- 1.7) This Consultancy Services Order (CSO) covers Step 1 only. Subject to Authority approval of the deliverables in the CSO, the subsequent steps will be covered in separate variations to this CSO, with timeframes and specific deliverables agreed in those variations. Likewise, other variations may be raised as required to cover the work referred to in clause 1.5(d) to (g).

Overview of the Authority staff role

- 1.8) In leading the CBA work, Authority staff have overall responsibility for the CBA quality and approach. The following are in scope for Authority staff:
 - (a) Provide the Provider with feedback, guidance, and responses to questions.
 - (b) Review and approve the deliverables at each step and notify approval to proceed to the next step.
 - (c) Facilitate and administer meetings and review points, including maintaining and circulating minutes of recommendations and decisions made.
 - (d) Propose information-sharing protocols between the Authority and each consultant.
 - (e) As agreed, potentially provide access to databases held by the Authority.
 - (f) As agreed, potentially undertake some modelling or other work.
 - (g) Lead reporting to the Authority Board.
 - (h) Manage via a change control process the interaction of the guidelines proposal with the CBA, including consideration of any shifts in the proposal due to CBA results.
 - (i) Integrate the CBA Reviewer role into the process (and separately, a consultant's services for reviewing the CBA modelling).
 - (j) Where the views of the CBA Reviewer and Provider differ, it is the responsibility of the Authority staff to make the final decision as to whether the Provider should adopt the CBA Reviewer's comments.
 - (k) Undertake other roles / work as necessary during the process.

Relevant points to note

- 1.9) The process described above at clauses 1.5 to 1.8 could evolve.
- 1.10) To support the Authority's presentation of the CBA during the consultation process, the Provider will provide the models and spreadsheets so that interested parties can undertake their own scenarios and sensitivity analyses and be available to undertake scenarios and sensitivities that the Authority seeks in response to submissions by interested parties.
- 1.11) Review does not necessarily mean agreement: from the CBA Reviewer, the Authority expects probing analysis that will unearth potential weaknesses and gaps in the CBA as it develops, to help improve the CBA approach and ensure the results are consistent with intentions.
- 1.12) The scope of the Provider's role is subject to Authority decisions, and the Provider needs to be prepared to be flexible if the Authority's requirements change.
- 1.13) In preparing the CBA, unless the Authority requires otherwise, the Provider (where relevant) must:
 - (a) refer to the *Interpretation of the Authority's statutory objective* (14 February 2011)

- (b) have regard to the Authority's document *Transmission Pricing Methodology: CBA Working Paper*¹ ("CBA working paper")
- (c) quantify, as far as is practicable, the incremental benefits and costs of the proposal
- (d) identify any incremental benefits and costs that cannot be quantified and provide a judgement of the importance of these relative to the quantified benefits and costs, and whether overall they would be likely to increase or decrease any net benefits that the Provider may have quantified
- (e) consider and give effect to any other material the Authority provides
- (f) undertake appropriate scenarios and sensitivity analysis to ensure that the CBA takes account of various uncertainties, including important design parameters, important assumptions and plausible developments in the market (including technological change)
- (g) discuss the limitations of the CBA, clearly specifying important considerations relevant to the Authority's decision that are not addressed by the CBA and that the Authority will have to reach a judgement on in making its decision
- (h) work with the Authority to ensure that there is a quality assurance process in place which will ensure that all aspects of the CBA, including the methodology, the modelling, the calculations and the parameters, are robust and that there are no errors
- (i) transparently document the CBA and all key relationships, models, spreadsheets and calculations used in deriving the CBA in such a way that an independent expert can understand the key drivers of the benefits and costs identified and how the results were obtained, for the Authority to publish and consult on
- (j) consult with the Authority at the earliest instance if the Provider:
 - i. considers that any material that the Authority provides conflicts with, or is inconsistent or incompatible with the Authority's statutory objective, or other material that the Authority provides, or
 - ii. otherwise has any questions regarding the project.

2) Consultancy Services required from the Provider

2.1) The Provider will prepare a recommendation on the high-level methodology or methodologies the Provider intends to use in undertaking the CBA, and in doing this:

- (a) with Authority staff, participate in a workshop:
 - a. reviewing lessons learned from the process surrounding each of the CBAs undertaken on the Authority's two previous TPM proposals (2012 and 2016)
 - b. designing a process for this CBA that will prevent errors (Authority staff to prepare and present workshop materials)
- (b) prepare two reports:
 - a. advising on alternative high-level methodologies that could be used for undertaking the CBA and the reasons for the high-level methodology recommended by the Provider
 - b. identifying and describing all categories of benefits and costs that will be quantified in the CBA, and those which will not be quantified
- (c) for each report prepared under (b):
 - a. submit a draft of the report to Authority staff and consider oral and/or written feedback from Authority staff, and the CBA Reviewer
 - b. submit a revised (final draft) report to Authority staff and consider oral and/or written feedback from Authority staff
 - c. submit the final report to Authority staff

¹ This is available at: <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transmission-pricing-review/consultations/#c6765>

- (d) in preparing the two reports referred to above, participate in the following:
 - a. a workshop on alternative methodologies for undertaking the CBA (Provider to prepare and present workshop materials)
 - b. a workshop on categories of costs and benefits (Provider to prepare and present workshop materials)
 - c. review meetings between Authority staff and the Provider on each of the draft reports
 - d. as necessary, review meetings with Authority staff on each of the final draft reports.
- (e) clarify with Authority staff how the work in later stages will be divided between Authority staff and the Provider
- (f) with Authority staff and the CBA Reviewer, participate in mapping out the decision and review points including the deliverables that will be provided to Authority staff and to the CBA Reviewer for the next stages
- (g) with Authority staff, specify data requirements and investigate the availability of and access to relevant datasets.

2.2) Unless agreed otherwise with the Authority, the Provider will prepare the recommendation under clause 2.1) by **28 September 2018**, and in doing this:

- (a) participate in the workshop under clause 2.1)(a) in the **week ending 10 August 2018**:
- (b) provide the two reports under clause 2.1(b) in accordance with the following timetable:
 - a. report advising on alternative high-level methodologies that could be used for undertaking the CBA and the reasons for the high-level methodology recommended by the Provider
 - i. workshop – **week ending 17 August 2018**
 - ii. draft report – **week ending 7 September 2018** (Authority staff and CBA Reviewer to provide feedback within **5 business days**, ie, by 16 September 2018)
 - iii. final draft report – **week ending 21 September 2018** (Authority staff to provide feedback within **3 business days**, ie, by 26 September 2018)
 - b. report identifying and describing all categories of benefits and costs that will be quantified in the CBA, and those which will not be quantified:
 - i. workshop – **week ending 17 August 2018**
 - ii. draft report – **week ending 7 September 2018** (Authority staff and CBA Reviewer to provide feedback within **5 business days**, ie, by 16 September 2018)
 - iii. final draft report – **week ending 21 September 2018** (Authority staff to provide feedback within **3 business days**, ie, by 26 September 2018).

2.3) If requested, provide comments on some of the smaller design elements of a TPM.

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