

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 led by Authority staff, with an external adviser (the CBA Preparer) undertaking most of the work in close collaboration with staff.
- 1.3) The three stages of the CBA development are:
 - Stage One: CBA Preparer describes the high-level methodology or methodologies it intends to use in undertaking the CBA, and identifies categories of costs and benefits (complete).
 - Stage Two: CBA Preparer elaborates on the CBA methodology/methodologies it will use, and identifies the CBA methodology's/methodologies' expected inputs, assumptions, sensitivities and scenarios (complete).
 - Stage Three: CBA Preparer substantively analyses and compiles the CBA (CBA Report).
- 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. As such, the Authority engaged the Provider, through an earlier Consultancy Services Order (CSO) (Contract number: 18-19C017), to peer review the CBA Preparer's work at stages one and two of the CBA.
- 1.5) This CSO covers the Provider's role for stage three of the CBA.

2) Relevant point to note

- 2.1) Due to the sensitive nature of this review and the privileged information the Provider will be party to, the Provider must warrant that it will not offer any services critiquing the Authority's CBA to any potential submitter on the Authority's CBA during a subsequent consultation round.

3) Consultancy Services required from the Provider

- 3.1) The Provider will provide the following Consultancy Services:

- a) The Provider will review the following deliverables (provided to the Provider by the Authority project manager in accordance with the CBA Review Plan for Step 3:
 - i. a section of the CBA Report on TPM development and implementation costs;
 - ii. the modelling of the components of the analysis underlying the CBA Report;
 - iii. the partial draft of the CBA Report; and
 - iv. the full draft of the CBA Report;
- b) The Provider will review the deliverables under clause 3.1)a) by:
 - i. checking the CBA Preparer has appropriately applied the methodology that was described in the stage two working paper, and where the CBA Preparer has departed from the methodology, that any departure is justified and is consistent with good practice;
 - ii. checking all scenarios listed in the stage two working paper are covered;
 - iii. highlighting any results that appear counter-intuitive;
 - iv. highlighting any assumptions that appear odd;
 - v. checking for any double-counting within the CBA Report;
 - vi. commenting on the CBA report – is it clear and convincing;
 - vii. offering practical solutions to resolve any concerns; and
- c) The Provider will report back to the Authority by providing written comments for each deliverable explaining:
 - i. what the Provider has checked;
 - ii. what the Provider has not checked;
 - iii. issues the Provider recommends are addressed; and
 - iv. risks.
- d) The Provider will:
 - i. check any changes made to the CBA by the CBA Preparer and/or the Authority as a result of the Provider performing the review under clause 3.1)b), in particular any changes or comments made by the CBA Preparer and/or the Authority in response to the Provider's comments made under clause 3.1)c); and
 - ii. confirm to the Authority whether any changes are satisfactory.
- e) The Provider will attend briefings and meetings as required by the Authority project manager (Jo Mackay).
- f) For the full draft of the CBA Report, the Provider will provide a written assurance that the Authority can rely on the CBA as being free of error and consistent with good practice. If the Provider cannot provide this assurance within the required timeframe, the Provider must comment on any limitations.

3.2) The Provider will provide the Consultancy Services set out at clause 2.1) within the timeframes set out in the CBA Review Plan for Step 3.