

## AoG Consultancy Services Order

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### 1) Purpose and background to Consultancy Services Order (CSO)

- 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 CBA Preparer) undertaking most of the work in close collaboration with staff.
- 1.3) 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 is engaging, through this Consultancy Services Order, the Provider to peer review the CBA Preparer's work at each stage of delivery.
- 1.4) The Authority will have responsibility for the CBA, and after considering the Provider's comments, will approve each stage deliverable, the final approach, and inputs and assumptions.
- 1.5) The three stages of the CBA development are:
  - 1: CBA Preparer describes the high-level methodology or methodologies it intends to use in undertaking the CBA, and identifies categories of costs and benefits (6 August to 28 September 2018).
  - 2: CBA Preparer elaborates on the CBA methodology/methodologies it will use, and identify the CBA methodology's/methodologies' expected inputs, assumptions, sensitivities and scenarios (approx. 6 weeks).
  - 3: CBA Preparer substantively analyses and compiles the CBA (approx. 2 months).
- 1.6) There is a set timeframe to complete each stage. The Authority intends for it and its consultants to make every reasonable endeavour to complete each stage within the set timeframe. The Authority will propose timeframes for the Provider to complete review tasks for each stage. The Authority expects the Provider to complete review tasks for each stage within the timeframe to the extent possible, unless otherwise specified by the Authority in writing.

- 1.7) This CSO covers Stage 1 only. The Authority intends to discuss the scope and deadlines of potential further Consultancy Services the Authority may wish the Provider to provide for the CBA Review for stage 2 during stage 1, and for stage 3 during stage 2. To avoid doubt, any discussion does not provide a guarantee as to the amount of work the Authority may require of the Provider.

#### **Overview of the Provider role**

- 1.8) As and when the Authority requires, the Provider will provide an economist's peer review of the various deliverables in the process of developing the CBA (CBA Review), with the expectation that ultimately the Provider will provide written assurance that the Authority can reasonably rely on the CBA as being free of error and consistent with best practice.
- 1.9) To this end, the Provider will, at the appropriate stage(s):
- (a) review in writing and/or orally specific deliverables
  - (b) comment on the deliverables' fitness for purpose and defensibility
  - (c) comment on whether the execution of the CBA is consistent with the proposed approach
  - (d) undertake other activities as agreed where review can add value.
- 1.10) The Provider will evaluate the CBA deliverables in respect to:
- (a) identifying any fundamental flaws and logic problems of the proposed CBA approach, implied economic framework, and choice of methodology/ies
  - (b) stress testing the assumptions and identify weaknesses or gaps in the CBA Preparer's analysis
  - (c) identifying, and evaluating the strength of, criticisms that could be levelled against the CBA
  - (d) advising on how any weaknesses, gaps or criticisms could be addressed
  - (e) checking that the final CBA implements the approved methodology/ies
  - (f) other aspects the Provider and the Authority agree are relevant.

#### **Overview of the Authority staff role**

- 1.11) 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) providing the Provider with feedback, guidance, and responses to their questions
  - (b) reviewing and approving the deliverables at each stage
  - (c) facilitating and administering meetings, including maintaining and circulating minutes of recommendations and decisions made
  - (d) reporting to the Authority Board
  - (e) managing, 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
  - (f) integrating the Provider's role into the process
  - (g) deciding whether the CBA Preparer should adopt the Provider's comments if the views of the Provider and the CBA Preparer differ
  - (h) undertake other roles / work as necessary during the process.

### Relevant points to note

- 1.12) The process described above in this clause 1 could evolve.
- 1.13) Review means constructive critique: the Authority expects the Provider to provide 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 the proposed approach.
- 1.14) Despite entering this CSO, the Authority provides no guarantee as to the amount of the Consultancy Services the Authority will require the Provider to provide. The scope of the Provider's role is subject to Authority decisions at each stage, and the Provider needs to be prepared to be flexible if the Authority's requirements change.
- 1.15) When reviewing the deliverables, unless the Authority requires otherwise, the Provider must consult with the Authority at the earliest instance if the Provider:
  - (a) 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
  - (b) has any questions regarding the project.
- 1.16) 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.

### 2) Consultancy Services required from the Provider

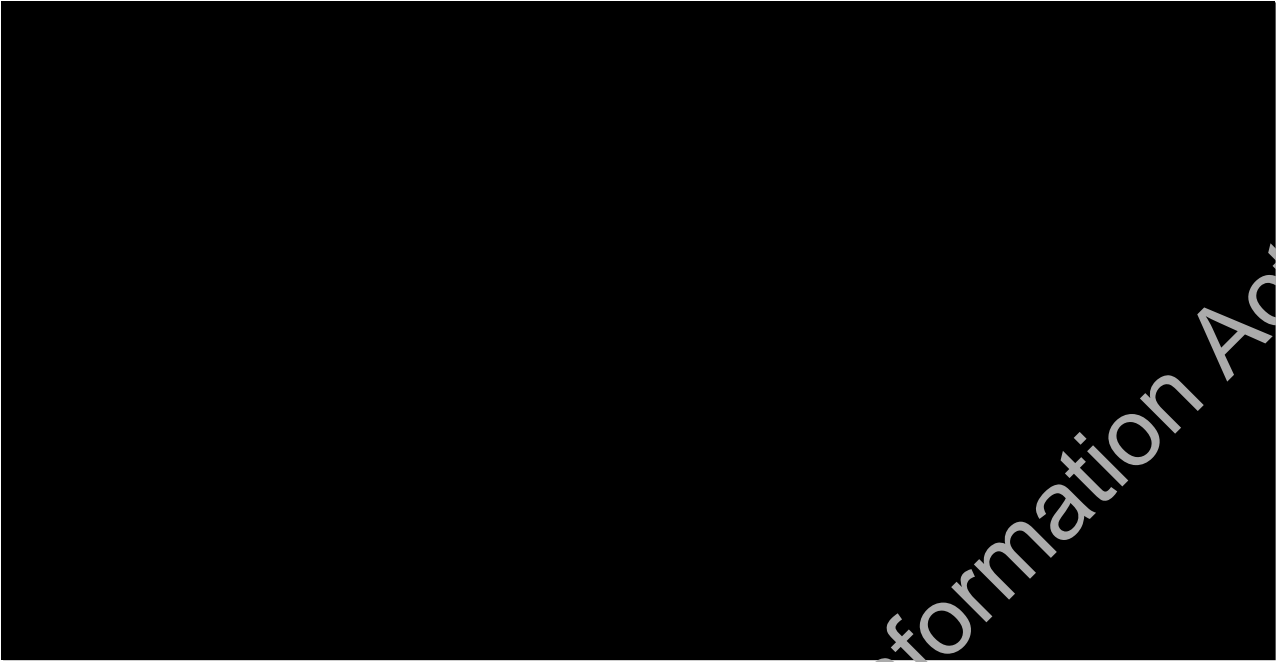
- 2.1) As and when the Authority requires, the Provider will for **Stage 1**:
  - (a) review the CBA Preparer's draft report using the relevant criteria in clause 1.10
  - (b) participate in a review meeting or meetings between Authority staff and the CBA Preparer and provide oral feedback on the draft report
  - (c) provide written notes in a Word document of the oral feedback it provided in any review meeting
  - (d) if requested, review and provide written comments on the final version of the report
  - (e) If requested, provide advice or research on related matters within the time and budget scope of this CSO
  - (f) discuss with the Authority, the potential scope and deadlines for the CBA Review for stage 2.
- 2.2) Unless agreed otherwise with the Authority, the Provider:
  - (a) will receive the CBA Preparer's draft report for review on **11 September 2018** (or the date that this CSO is signed, if it is later) and will provide the Consultancy Services under clause 2.1) by **17 September 2018** (or within 5 business days), and:
    - a. participate in a review meeting or meetings on **14 September 2018** and/or as otherwise agreed
    - b. provide written notes defined in cl 2.1(a)(iii) on the **fifth business day** or as agreed with the Authority.
  - (b) if requested, review and provide written comments on the finalised CBA Preparer's report between **21 and 25 September 2018** or as otherwise agreed
  - (c) If requested, provide advice or research on related matters within timeframes agreed to by the Provider and the Authority.

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