

Allowable Revenue Determination – Additional Information

The Authority has requested further information from the Independent Market Operator (IMO) and System Management in response to the allowable revenue proposal/application.

Responses were received from the IMO on 22 December 2006 and System Management on 19 December 2006.

The Authority has reviewed the responses and is now able to publish the non-confidential information provided.

The Authority has determined that the additional information provided by the IMO is commercially sensitive and is not available for publication. The Authority has also reviewed the further information provided by System Management and proposes to publish only the non confidential elements which include extracts relating to:

- System Management's IT operating expenditure; and
- System Management's self-insurance.

System Management's IT Operating Expenditure

The following is an excerpt of the information provided by System Management:

The ongoing opex costs for IT support for SMMITS (System Management Market Information Technology System) of \$100,000 (2007/08) are derived from the need to provide a range of skills to address application support, break-fix service, minor software configuration changes and on-going licences and change-management services for SMMITS. Expertise is included across a number of disciplines - Database administrator, UNIX systems management, network infrastructure and integration services support. No resource from any of these areas is required on a full-time basis but a percentage of existing resources from each of these disciplines has been included. Overall, it is considered that three quarters of an FTE will be required to support SMMITS, leading to an allocation of \$100,000 for 2007/08.

It should be noted that the figure from 2007/08 has been escalated by approximately 10% in the following years of the review period. This figure reflects the likely escalation in support costs. It should also be noted that this figure does NOT include any further development of the SMMITS application as this cost would be treated as capital expenditure and is included elsewhere in the submission.

System Management's Self Insurance

The following is an excerpt of the information provided by System Management with respect to annual risk exposure in the context of its proposed self insurance:

The total annual risk exposure of System Management is set out in the applicable legislation.

Unlike both the Authority and the IMO, System Management is not exempt from the application of section 126(3)(a) of the *Electricity Industry Act 2004*. System Management is therefore subject to a prescribed maximum penalty as set out in regulation 52(2) of the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*. This "prescribed maximum" is capped at \$100,000 per instance, and capped at \$10,000,000 for every 12 month period.

[.....]

Once again, efforts are continuing with our risk advisors, Aon Risk Brokers, to identify and enter into an appropriate insurance policy which will mitigate System Management's risks in the market. It is hoped that this will be achieved in the first quarter of 2007. It is hoped that the cost of such an insurance policy will reasonably quantify the risk to be mitigated, and further information will be provided to the Authority as soon as practicable.

Other Information

The IMO and System Management have claimed confidentiality on other information provided. The Authority is therefore not able to publish this information.