SCHEDULE F      BASE CAPEX PROPOSAL - QUALITATIVE INFORMATION

cl. 7.3.1, 9.1.1

F1  Qualitative information required in a base capex proposal

For the purpose of clause 7.3.1 (1) (b) a base capex proposal must, in addition to the other things specified in that clause, include all the information listed or described in this schedule.

F2  Identified programmes

(1) Identified programmes means base capex projects or base capex programmes forecast to be undertaken during the next regulatory period defined by reference to one or more of the following categories or criteria-

(a) base capex categories;
(b) a classification by way of a maximum cost or expenditure threshold or another related financial measure;
(c) a ranking system, such as the five highest cost programmes or projects;
(d) any other distinguishing characteristic or measure applicable to types of programmes or projects undertaken by Transpower,
    and ‘identified programme’ means one of those programmes or projects.

F3  Overview

(1) detailed commentary as to how the proposed projects and programmes relating to base capex are consistent with the-

(a) most recent integrated transmission plan, and if there is any material divergence from and if not, why not; and

(b) opex proposal,
    for the next regulatory period;

(2) overall description of Transpower’s aims and objectives with respect to base capex during the next regulatory period;

(3) summary of the key evidence supporting those aims and objectives;

Commented [A1]: Lifts the level of approval, and clause is clear that classification is for Transpower to describe

Commented [A2]: Level of commentary consistent with overview intent
(4) explanation as to the overall deliverability of the proposed projects and programmes relating to base capex; and

(5) identification and explanation of the factors likely to affect the deliverability of the proposed projects and programmes relating to base capex, by base capex category;

F4 Governance Policies, processes and consultant reports

(1) schedule listing governance all policies or processes applicable to base capex concerning-
   (a) base capex projects costing over $20 million;
   (b) base capex programmes;
   (c) asset management;
   (d) business planning; or
   (e) capital works;

(2) description of all material changes to policies and processes described in subclause (1) made since the Commission’s last determination of a base capex allowance; and

(3) schedule listing all consultant reports commissioned for the purpose of preparing the proposal;

F5 Cost and efficiency

(1) evidence demonstrating if, and how, Transpower has, in relation to base capex, during the current regulatory period-
   (a) pursued, and is pursuing process improvements,
   (b) ensured and is seeking to ensure appropriate least-whole-of-life cost and efficient interventions
   (c) pursued and is pursuing cost reduction strategies for its projects and programmes
   (d) ensured and is seeking to ensure that both internal and external suppliers of goods and services have incentives to perform well and identify cost savings;

(2) description of all efficiency assumptions relied upon in the proposed base capex allowances; and
Information on programmes and identified programmes

(1) description, in respect of each **base capex programme**, of the milestones that have been passed in accordance with Transpower’s internal approval processes;

(2) in respect of each **identified programme**:

(a) description of the **programme**, including its aims and objectives in relation to grid development, maintenance or operation;

(b) cost-benefit economic analyses that support it;

(c) explanation as to its deliverability, with reference to factors likely to specifically affect that programme;

(d) description of the methodology used to generate the forecast of its **base capex**, including, but not limited to-

   (i) the relevant **key assumptions** and how they were applied;

   (ii) any relevant cost benchmarking undertaken by or for Transpower; and

   (iii) internal historical cost trends for specific cost components relied upon e.g. unit costs; any material changes

   (iv) any models used accompanied by explanations for them and how they were relied on;

(e) any material change from historical costs in any cost component included in the programme and its effect on the forecast capex;

(f) list of all relevant documents taken into account in forecasting its **base capex**, including documents relating to its deliverability, relevant policies and consultant reports;

(g) **explanation of the extent to which its forecast base capex** implements the key assumptions, any consultant reports, and policies relating to the planning of the grid and the forecasting of capital expenditure and operating expenditure for that purpose, including in relation to-

   (i) long term grid development;

   **Commented [A6]:** We consider the incentive regime for base capex on P50 mitigates against specifying contingency

   **Commented [A7]:** At a higher level, could describe our internal governance process as suggested for F4

   **Commented [A8]:** Accommodates a wider range of justification tests e.g. cost-effectiveness

   **Commented [A9]:** Repeat requirement. Already under F3

   **Commented [A10]:** We consider models are potential input to base capex forecasts

   **Commented [A11]:** Repeats requirement, already in F4

   **Commented [A12]:** Having to try to evaluate then explain the extent to which each relevant policy supports each base capex programme (having identified the relevant policies under (f)) is a level of mapping that adds nothing to understanding the why (the need) for the work.

   F (6) (2) covers key assumptions and objective for base capex
(ii) grid maintenance; and
(iii) grid operation;

(h) explanation of all material departures from any-
(i) relevant policies;
(ii) planning standards; or
(iii) conclusions and recommendations contained in the consultant reports
identified pursuant to paragraph (f);

(i) overview of any significant tradeoffs between operating expenditure, base capex and quality that Transpower considered in its development;

(j) assessment of its impact upon either or both of the-
(i) quality performance; and
(ii) serviceability,

of the assets to which it relates;

(k) description of relevant legally enforceable duties owed by Transpower, whether arising under legislation, at common law or in contract, that have a material impact on an identified programme;

(l) description of any material step change compared to historic costs for the same or a similar type of programme;

(m) explanation of the effect of a step change identified pursuant to paragraph (l) on its forecast base capex; and

(n) where not required by the regulatory templates agreed pursuant to clause 2.2.1(1), or specified pursuant to clause 2.2.1 (2), schedule of any models used accompanied by explanations of them and how they were relied upon;

(3) in respect of each identified programme forecast to be first commissioned during the next regulatory period-

(a) description of the system growth project prioritisation approach;

(b) summary of the options considered (where relevant), analyses undertaken and the reasons for rejecting those that are not proposed to be implemented;

(c) a schedule.
(i) listing all programmes or projects whose forecast base capex includes a contingency amount additional to the forecast cost of that programme;

(ii) describing the rationale for inclusion of each such contingency amount;

(iii) describing the uncertainties each contingency amount accounts for; and

(iv) specifying the methodology for calculating the quantum of each contingency amount; and

(4) in respect of each identified programme with a fixed end date forecast to be first commissioned in the regulatory period after the next regulatory period, information of the type specified in subclause (1) must be provided in respect of the period ending on the forecast commissioning date.

F7 Procurement

(1) In relation to procurement, identify any identified programme that uses outsourced services which have a material effect on the desired outcome of that identified programme.

(2) In relation to each identified programme identified pursuant to subclause (1),

(a) identify the outsourced services that have a material effect;

(b) explain whether those outsourced services are to be provided-

   (i) under a discrete contract; or

   (ii) as part of a broader operational arrangement or contract (or similar);

(c) provide an overview of the procurement process, including an explanation of the extent to which the process was competitive, and if not, why not;

(d) identify any significant components of any outsourced services that will be or have been sub-contracted to another supplier; and

(e) identify relevant procurement documents in a schedule, including but not limited to requests for tender and submissions in response.

F8 Resourcing and delivery

(1) description of plans for resourcing and delivering the proposed base capex projects;

(2) identification of the key risks associated with resourcing and delivering the proposed base capex projects including explanation of each risk’s potential to affect.
(a) the forecast base capex; and
(b) forecast grid output measures; and

(3) description of the approach processes that will be implemented to manage or mitigate the resourcing and delivery risks to which subclause (2) relates.

F9 Other capex

In respect of any base capex included in the regulatory templates agreed pursuant to clause 2.2.1 (1) or specified pursuant to clause 2.2.1 (2)

(a) description of each such escalation factor and rationale for its use;
(b) methodology underlying the calculation of its quantum, by reference to data sources, data conversions and assumptions relied upon, including lags;
(c) the weighting given to it and description of how that weighting was determined, including any assumptions relied upon;
(d) explanation of whether the same escalation factor has been used in the base capex proposal and opex proposal, and if not, explanation and supporting evidence as to why different escalator factors were applied;
(e) an explanation of whether, in applying escalation factors that relate to labour or material inputs, additional contingency factors were applied and, if so, description of the uncertainties they account for and how they were calculated;

(2) a list of the foreign exchange rates used to prepare the proposed base capex allowance;

(3) an estimate of the exposure to foreign currency for each foreign currency for each year of the next regulatory period and description of how these estimates were produced.

Commented [A22]: For in RCP2 submission we provided a risk register including the risk, some value assigned to the risk, and the mitigating actions. The mitigating actions tend to reflect our policies and procedures.

Commented [A23]: For clarity, plus $1 million is very small in scheme of base capex propose higher level e.g. $5 million.

Commented [A24]: Allowance conveys a limit of expenditure; we have suggested the concept of a funding baseline for the incentives to operate.
F11  Information on proposed grid output measures

(1) lists of all proposed grid output measures to measure the benefit delivered by proposed expenditure
   (a) performance-based measures;
   (b) asset capability grid output measures;
   (c) asset health grid output measures; and
   (d) grid output measures designed to measure the benefit delivered by proposed expenditure not captured by paragraphs (a) to (c) above, that clearly identify those proposed to be revenue-linked grid output measures;

(2) description of each grid output measure listed under subclause (1) including:
   (a) detailed definitions;
   (b) details as to what the measure includes and excludes;
   (c) any relevant calculations;
   (d) the reasons for selecting each measure;
   (e) relationship between it and risks associated with the grid;
   (f) relationship between it and forecast performance of the grid;
   (g) relationship between it and the key purposes of the investment;

(3) in respect of each measure listed under subclause (1) -
   (a) the effect that the proposed base capex allowances would have on it both during the next regulatory period and beyond it; and
   (b) its alignment with the underlying business processes used to plan and operate the grid.

F12  Revenue-linked grid output measures

(1) in respect of each proposed revenue-linked grid output measure -
   (a) a description of how it will be linked to revenue through the grid output mechanism;
   (b) in respect of each disclosure year of the regulatory period, a proposed -
      (i) grid output target;

Commented [A25]: We query the need to have to specify (define) different types to such level

Commented [A26]: Unclear on what is needed and why.

Commented [A27]: Unclear on what is needed and why

Commented [A28]: Unclear on what is needed and why

Commented [A29]: Unclear on value of information given the reasons already given by 2 (d)
(ii) grid output incentive rate;
(iii) cap; and
(iv) collar;
(c) description of and justification for the proposed grid output targets, caps, collars, and grid output incentive rates including:
(i) how each was determined by reference to the relevant definitions;
(ii) whether, and if so, for each grid output target, Transpower has had regard to any consultation responses and relates to relevant policies and key assumptions;
(d) to the extent possible, historical performance data for the seven most recently completed disclosure years;
(2) commentary comparing and evaluating the performance of each proposed revenue-linked grid output measure with respect to actual capital expenditure and operating expenditure over the 7 most recently completed disclosure years;
(3) commentary as to how the proposed grid output targets relate to the proposed base capex allowances and proposed operating expenditure allowance as contained in the opex proposal;
(4) identification of any key assumptions relied upon and modifications or changes made to historical performance data for the purpose of determining the proposed grid output targets; and
(5) description of models and all data used to determine the grid output targets, caps and collars;

F13 Grid output measures not linked to revenue in respect of each grid output measure not subject to the grid output mechanism.
(a) the forecast quantum of the grid output measure at the start of the regulatory period;
(b) explanation as to how that forecast quantum was determined;
(c) forecast incremental change to its quantum by the end of the regulatory period were no base capex undertaken during the regulatory period;

Commented [A30]: Clause F11 describes all grid output measures and rationale for development.
(d) forecast incremental change to its quantum by the end of the regulatory period were expenditure made in accordance with the proposed base capex allowances; and

(e) models and data used to forecast:

(i) its quantum at the start of the regulatory period; and

(ii) incremental changes to its quantum during and by the end of the regulatory period;