

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~~.

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

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 [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;

Commented [A3]: Superseded by listed projects mechanism

Commented [A4]: Time consuming and unsure how requirement assists Part 4 objectives or Commission's evaluation

We could describe the governance process (e.g. the controlled document process).

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~~

Commented [A5]: This section implies ex-post evaluation of efficiency actions and that the Commission needs to form a view of how we carry out our work plan.
The Commission has to apply judgement to determine our level of efficiency.
In our view the incentive regime reveals our level of efficiency. The incentive regime will reward and penalise us for our level of efficiency revealed over the course of the control period.

We could provide information about how we have incorporated our current level of efficiency within the baselines (e.g. via section F6(2)(d)).

(3) ~~description of~~

- (a) ~~any contingency included in proposed costs; and~~
- (b) ~~the methodology for calculating such contingencies;~~

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

F6 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;~~

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

(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;~~

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

Commented [A9]: Repeat requirement. Already under F3

(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;~~

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

(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;~~

Commented [A11]: Repeats requirement, already in F4

(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-~~

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.

- (i) ~~long term **grid** development;~~

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-~~

Commented [A13]: How to assess 'significant' – consider could be a description of our approach to consideration of opex / capex trade-offs and quality change (if any) from consideration.

Commented [A14]: Any quality change could be covered at a higher level, by suggestion for amendment for (i)

Commented [A15]: Covered in F3 (5)

Commented [A16]: policy moved to cause F(6) (2) (d).

Commented [A17]: Unsure what rule means or what it is for

Commented [A18]: Only require if there are genuine options

- (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~~;

Commented [A19]: Unclear on what is purpose for this requirement

F7 **Procurement**

Commented [A20]: Lift up level of detail

- (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

Commented [A21]: Already required at F 3 (4)

- (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.

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.

F9 Other capex

In respect of any **base capex** included in the **regulatory templates** agreed pursuant to clause **Error! Reference source not found.** or specified pursuant to clause **Error! Reference source not found.** to which clause F6 does not apply, description of the rationale for any forecast **base capex** exceeding \$1 million \$5 million in any one **disclosure year**.

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

F10 Escalation factors and foreign exchange assumptions

- (1) in respect of each escalation factor relied on to account for changes in input prices in completing 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 [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.~~

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)

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**;

- (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;~~