

Capital Expenditure Deliverability

The extent to which the forecast capex proposal can be realistically undertaken during the Forthcoming Regulatory Control Period with respect to the ability of TransGrid to:

(a) obtain finance;

(b) source physical resources (i.e. labour and materials); and

(c) manage and undertake the forecast capex proposal and the forecast opex proposal.

Capital projects are delivered through a range of strategies that involve the procurement of services, major equipment and construction contracts. Sourcing strategies are established for categories of procurement and project specific strategies are developed for the most efficient and effective delivery that meets the goals of the project. These strategies are described in Attachment 1.

In terms of the specific RIN definition of deliverability:

- (a) TransGrid has a committed capex facility of \$350 million through its syndicate of lending banks, with a maturity date of June 2019 and utilisation of \$84 million as at 30 June 2016. Capex is funded with a combination of funds from operating cash flow and drawings under the capex facility. In addition to its operating cash flow, TransGrid has the capacity to extend and/or increase its borrowing for capex through its relationships with existing lenders. On this basis, TransGrid has appropriate funding capacity to support its capital expenditure requirements.
- (b) TransGrid is expected to achieve an average capex spend of approximately \$232 million (\$2018) over the current regulatory control period. Whilst this has reduced from the preceding regulatory control period (2009/10 to 2013/14) where the capex spend averaged circa \$475 million, the forecast annual capex spend over the forthcoming regulatory period is expected to average approximately \$323 million. Based on TransGrid's historic performance and the sourcing strategies that are now in place, TransGrid has a demonstrated capability of delivering the forecast capex program.
- (c) See item (b) above.

Attachment 1 – Delivery and Sourcing Strategies

Assessment of the Delivery Strategy

An assessment is made of the most appropriate delivery strategy during the project scoping phase. This includes bundling and sequencing the delivery of different needs. These decisions are made during the scoping, estimating and risk assessment phase that precedes project approval. The delivery strategies utilised by TransGrid include: design and construct (D&C), construct only (CO), and early contractor involvement (ECI).

Sourcing Strategies

In 2012, TransGrid initiated a review of sourcing strategies for various categories of capital works projects. For capital works delivery, the review has resulted in the establishment of a substation panel and a telecommunications panel. A design services panel is about to be finalised and transmission line supply arrangements are expected to be established in 2014.

Each sourcing strategy considers:

- Business objectives;
- Market analysis;
- Expected forward program of work;
- Delivery challenges; and
- Approaches to the market.

Delivery of Substation Capital Works

Substation capital works generally fall into one or more of the following major project categories:

- New substations or complete rebuilds of existing substations on new/adjacent land (greenfield substation sites);
- In-situ rebuilds of existing substations;
Major expansions to existing substations;
- Primary plant replacements; and
- Secondary system replacements.

TransGrid has a Substation Panel for the delivery of substation capital works. The Substation Panel allows for various forms of contract type.

A panel of four suppliers has been established for an initial 3-year term with the option to extend for a further two years. The panel will give suppliers sufficient certainty of work to invest in processes that meet TransGrid's requirements and to develop deep working relationships with TransGrid and

equipment suppliers; while giving TransGrid flexibility to change its arrangements if necessary after three years.

Key benefits for TransGrid in setting up and using the panel are:

- More efficient, effective and shorter procurement process;
- Key commercial terms locked down throughout the life of the panel;
- Suppliers that can clearly meet TransGrid's OH&S, environmental and quality requirements;
- Enhanced relationships with suppliers to build a better understanding of TransGrid's procedures and processes;
- The ability for suppliers to assist in specification development;
- Efficient work practices by building a continuity of suppliers project teams from project to project; and
- Flexible contracting arrangements to engage suppliers for the variable work related to customer connection projects.

Unless approved otherwise, all work allocated to the suppliers will be done so via a competitive tendering mechanism.

A single source circumstance may include:

- A high priority project with a critical commissioning date where, if the normal competitive tendering process was followed, there is a strong possibility that the required commissioning date would not be achieved;
- A supplier is already established on site and additional project works at that site are required; or
- Bundling or geographical requirements dictate the need undertake a single source process.

Delivery of Transmission Line Capital Projects

TransGrid uses external suppliers for the construction of major transmission line projects. Suppliers are engaged using an open tender process. TransGrid internal construction resources are used for minor capital projects such as pole replacements.

Specifications include a concept project design, standard designs and approvals.

Single source engagement of suppliers is limited to urgent projects that are almost exclusively asset relocation projects for external customers.

TransGrid supplies insulators and special conductor with all other items supplied by through the transmission line contract.

TransGrid is planning to establish transmission line supply arrangements in 2014. The primary goals are:

- Improved responsiveness to evolving needs;
- Improved environmental and safety performance; and
- Reduced contractual disputes.

Delivery of Telecommunications Projects

From 2008 to 2012, TransGrid delivered telecommunications projects using relationship agreements (ECI). This sourcing strategy is well suited where input from the supplier is needed in the project development phase. Telecommunications is an area where there is significant technology change and shorter product lives compared to other power system projects. Alignment with a major supplier ensures the latest developments are included in TransGrid projects.

In 2013, a tender process was used to establish two suppliers for telecommunications projects. ECI will continue to be used for most projects but with comparative pricing to further ensure value for money outcomes.

Designs for Major Projects

TransGrid retains the specialist expertise that is necessary for the efficient and effective management and development of a high voltage power network. These resources are used for the development of standard designs, project concept designs and some detail designs. Although contractors are used for detail designs for many projects, there are projects where detail designs are more appropriately provided by experts with detail knowledge of the installed assets and systems. These designs are provided by TransGrid with the assistance of external design consultants.

The early design phase is an integral component of the environmental approval, community consultation and property acquisition processes. These designs are provided by TransGrid and its consultants.

Major Equipment for Capital Projects

All major equipment for substation projects are purchased by TransGrid and supplied to the project to take advantage of the economies of scale that result from procurement for a capital program, rather than individual projects. Period contracts are established through open tender processes. The supply of long lead time equipment with significant foreign exchange costs to the project by TransGrid ensures delivery and financial risks are effectively managed.

Future Directions in Capital Project Delivery

TransGrid will continue to seek and implement strategies that improve the delivery of capital projects. In particular, there is an increasing need to be able to respond quickly to emerging system needs and customer needs. The Substation Panel has significantly improved responsiveness and shortened the procurement process. This has been achieved without reducing the competitiveness of the supplier engagement process. Similar sourcing strategies are being extended to other areas of project delivery.