

Prescribed Capital Investment Framework

Summary

This framework describes the capital investment framework used by TransGrid to deliver prescribed transmission services.

Document Control

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1. Purpose

This document sets out the capital investment framework used by TransGrid to deliver prescribed transmission services. It applies to the full asset lifecycle (including planning, project delivery, operating and retiring the asset) and addresses the following key matters:

- > how TransGrid establishes what is of value to the business when making decisions to invest in prescribed assets
- > the procedures for justifying asset investments and optimising the prescribed investment portfolio
- > the criteria applicable to those decisions
- > how the relevant evidence is collected and analysis, including the quantification of benefits, is carried out
- > how the expected benefits are identified, tracked and reported and
- > the accountabilities and responsibilities of the Board, Executive and staff in relation to the above tasks.

2. Scope

The scope of this framework, including supporting procedures and guidelines, is all capital investments required for TransGrid to deliver prescribed transmission services including:

- > network related investments comprising all transmission line, underground cable, primary and secondary (including Operational Technology) systems, communication systems, non-network, property and facilities investments
- > information technology (IT) investments comprising corporate and Support the Business IT investments and
- > fleet investments.

The framework supports the Financial Investment Policy and is consistent with:

- > the Risk Management Framework, allowing the Board and management to better understand how proposed capital portfolios impact the six key corporate risk categories and thereby providing the ability to adjust the investment mix to maximise business value
- > the Benefits Management Framework, allowing the benefits associated with asset investments to be identified throughout the planning, project delivery and asset operating lifecycle phases and, with knowledge of the associated risk impacts, reinvested or cashed out
- > the Asset Management Framework, strengthening the link between the assessments of asset condition and the associated investment proposals and
- > the Financial and Process Authorities.

3. Definitions

Term	Definition
Decision Gate (DG)	A decision point in the investment decision-making process. The framework requires appropriate governance including approvals, properly documented and supported, to be given at these Gates prior to moving to the next project stage
Identified need and/or opportunity	The basis on which it is proposed that TransGrid would make an asset investment

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Term	Definition
Information Technology Investments (IT)	All corporate and Support the Business IT investments
Investment	A project or program that address an identified need and/or opportunity
Justification	A decision to proceed with an investment on the basis that it met the relevant decision criteria
NEM	National Electricity Market
NER	National Electricity Rules
Network	TransGrid substations, transmission lines, underground cables, protection, metering, communications and control assets that form the high voltage transmission system
Network constraint	A technical limit on the transmission network that cannot be exceeded without the risk of unacceptable consequences
Network related Investments	All transmission line, underground cable, primary and secondary (including Operational Technology) systems, communication systems, non-network, property and facilities investments
Non-network Investments	Investments to relieve network constraints and/or meet reliability prescribed service obligations that do not necessarily involve the construction of transmission assets. These can include generation and/or demand management investments
Net Present Value (NPV)	A methodology for deciding whether to make an investment. NPV analysis discounts the expected benefits and costs of a project for the time value of money. Subject to any capital and non-capital constraints, where the discounted benefits of a project exceed the discounted costs, the project should in theory proceed
Optimisation	The process of maximising the business value generated by the asset investment portfolio. This can involve deferring or bringing projects or programs forward in time, terminating, rescoping, combining or separating them
PDGS	Project Document Governance System, a tool used to track where all investment projects and programs are within the investment and delivery process
Portfolio	The set of all prescribed investment projects and programs
Program	A set of projects designed to address a common need and/or opportunity
Project	A proposed investment designed to address a need and/or opportunity

4. Objective

The objective of investing in assets that deliver prescribed transmission services is to maximise the contribution those assets make to business value.

TransGrid is a capital intensive business that builds and operates assets that typically have long service lives. The contribution the asset portfolio makes to business value is maximised by maximising the benefits

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generated by the assets while minimising their lifecycle costs. This is consistent with the Asset Management Framework which is aligned with the ISO55001 best practice asset management standard.

Consistent with the Corporate Benefits Management Framework, there are three kinds of benefits: reducing risks, reducing costs and increasing revenues. A “need” is a reduction in risk from an unacceptable level to an acceptable level. An “opportunity” is any other kind of risk reduction, cost reduction or revenue increasing benefit. Investments are designed to address identified needs and/or opportunities and take the form of projects and programs. Programs are a set of projects designed to address a common need and/or opportunity. The investment portfolio is comprised of all projects and programs that have reached Project Commencement (Decision Gate 1).

Under the Risk Framework, there are six corporate risk categories: system (reliability), financial, operational, people (safety), environmental and reputational. All risk-driven prescribed asset investment proposals are assessed in terms of how they impact each of these risk categories. Quite apart from any other benefits they may generate, risk-driven investments should reduce both the asset and the portfolio’s overall risk profile.

The Corporate Plan typically identifies performance measures for one or more kinds of benefits, including specific risk categories.

5. Principles

The objective is delivered in accordance with the following principles:

1. *Sustainability and efficiency* — prescribed transmission services continue to be delivered to TransGrid’s customers at sustainable, efficient lifecycle costs
2. *Safety and protecting the environment* — TransGrid has committed to ensuring the health and safety of TransGrid’s workers, contractors, visitors and the public and to protecting the environment and
3. *Consistency* — all potential investments, including non-network project options, should be assessed on a consistent basis.

These principles require:

- > the use of economic and/or financial approaches as the starting point for assessing potential investments
- > those assessments being clearly aligned with corporate statements of where business value lies and
- > transparency regarding the evidence and judgement used to inform those assessments.

6. Framework

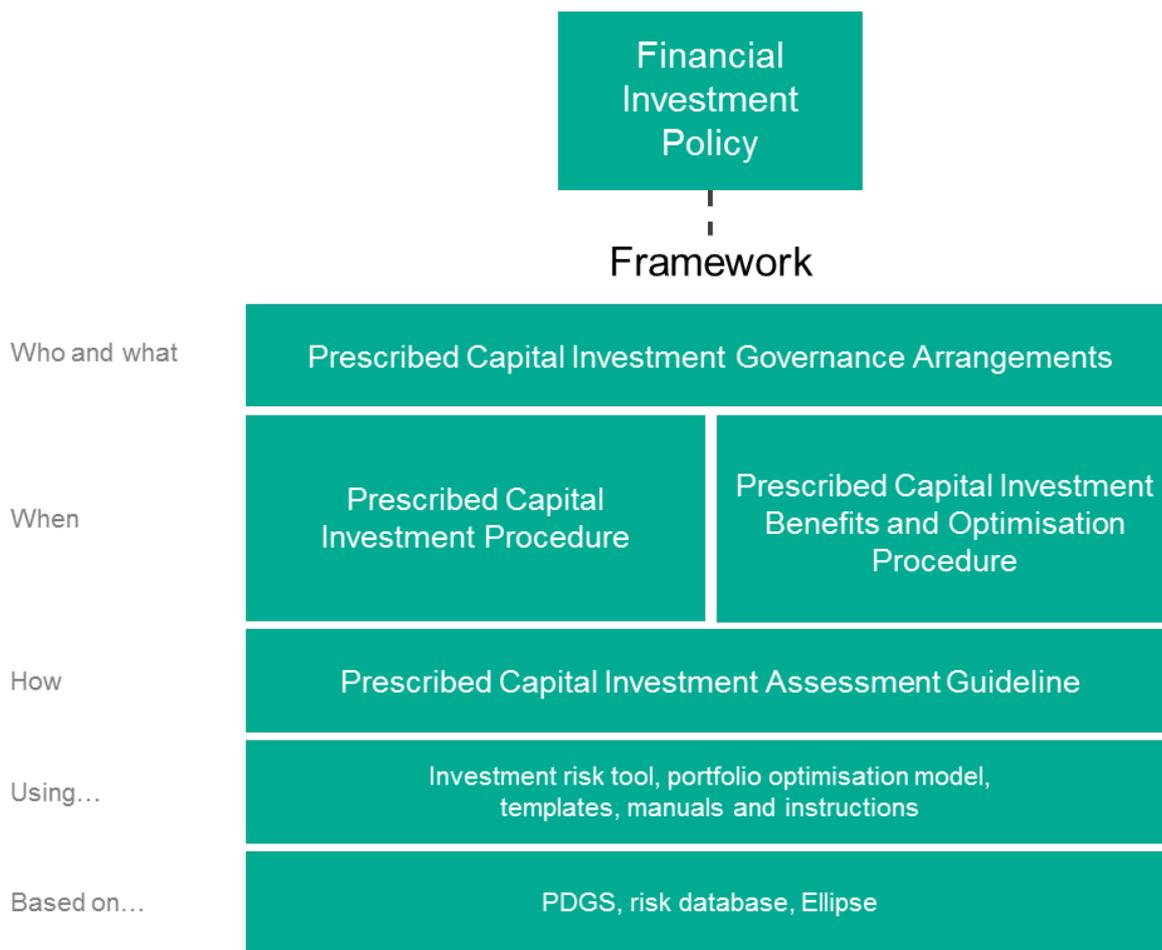
The framework enables three functions in order to deliver the policy objective:

- > ensuring that proposed projects and programs are justified
- > optimising the portfolio under capital and non-capital resourcing constraints and
- > identifying, tracking and realising the benefits associated with the projects and programs.

The framework is comprised of the artefacts set out in Table 1 overleaf.

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Table 1 – Framework artefacts



The Financial Investment Policy sets out the objective of the business investing in prescribed assets as well as the principles it applies when doing so.

The Prescribed Capital Investment Governance Arrangements identifies the structures and individuals accountable for making the investment decisions.

The Prescribed Capital Investment Procedure sets out the process and supporting documentation required to identify and justify projects and programs. The process involves two milestones known as Decision Gates.

The Prescribed Capital Investment Benefits and Optimisation Procedure sets out how the expected benefits are identified, tracked and reported as well as the process for optimising the investment portfolio.

The Prescribed Capital Investment Assessment Guideline sets out the criteria used to make the investment decisions as well as how the quantification of benefits, is carried out.

7. Accountability

Title	Accountabilities
Executive General Manager/Asset Management (EGM/AM)	<ul style="list-style-type: none"> > supervision of the Prescribed Capital Investment Framework within TransGrid including its application to network-related, IT and fleet investments > related projects in accordance with sub-delegations > approval of regulatory consultation documents

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Title	Accountabilities
Manager/Investment Strategy and Solutions	> maintaining and improving the framework

8. Implementation

Changes outlined in this framework are to be implemented through presentations by the Manager/Investment Strategy and Solutions to the relevant internal stakeholders.

9. Monitoring and review

The application of this framework will be monitored and, at least once every calendar year, reviewed by the Executive Investment Committee (EIC).

10. Change history

Revision no	Approved by	Amendment
1	Gerard Reiter, EGM/AM	Editorial revisions
0	Gerard Reiter, EGM/AM	Original document

11. References

Financial Investment Policy

Prescribed Capital Investment Governance Arrangements

Prescribed Capital Investment Procedure

Prescribed Capital Investment Benefits and Optimisation Procedure

Prescribed Capital Investment Assessment Guideline

Asset Management Framework

Risk Management Framework

Benefits Management Framework

Financial and Process Authorities

12. Attachments

Attachment 1 — Framework overview

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Attachment 1 – Framework overview

