

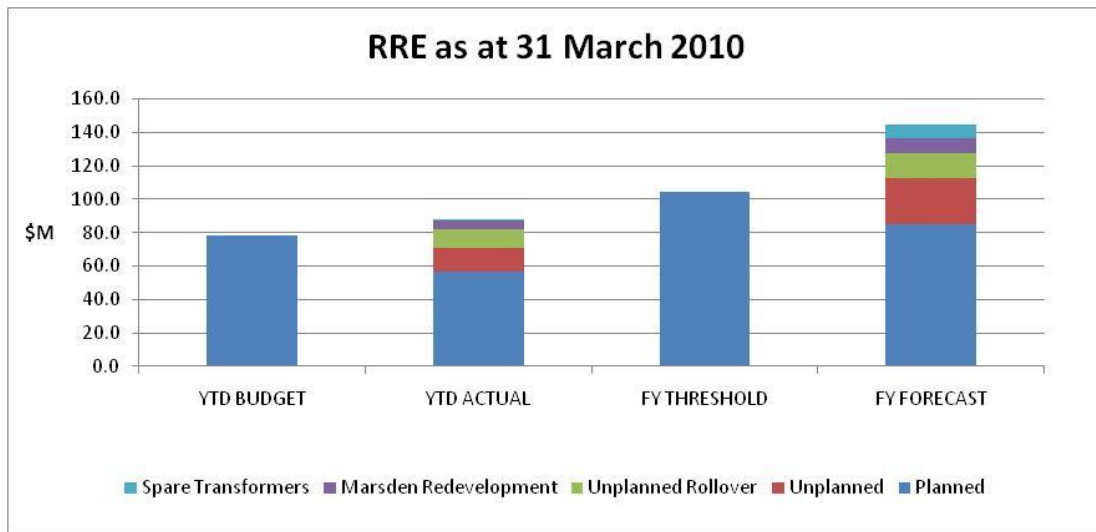
Date: 19 April 2010
Location: Commerce Commission

Proposed Agenda

- 1) YTD progress
- 2) Reforecast year-end position;
- 3) The magnitude of unplanned capex in the 2009/10 year;
- 4) Explanation for the high percentage of planned projects (2010/11 and 2011/12) that have not completed the approval process;
- 5) The use of ex-post review for any project that has not completed the approval process.
- 6) Subjective adjustments for efficiencies and rollovers

Commerce Commission	Transpower
Mark Berry	Patrick Strange
Sue Begg	Kieran Devine
Brent Alderton	Richard Fletcher
Anthony Merritt	
Alex Sim	
Paul Melville	
Bill Heaps - Strata	

- 1) YTD progress
- 2) Reforecast year-end position;
- 3) The magnitude of unplanned capex in the 2009/10 year;



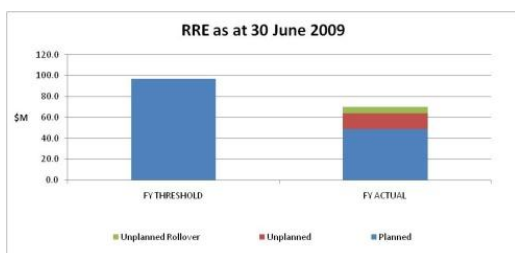
2009/10	YTD BUDGET	YTD ACTUAL	Full Year THRESHOLD	Full Year FORECAST
RRE	78.4	88.1	104.3	145.0

Note expenditure profile during the financial year is typically skewed towards increased expenditure in Q3 and Q4.

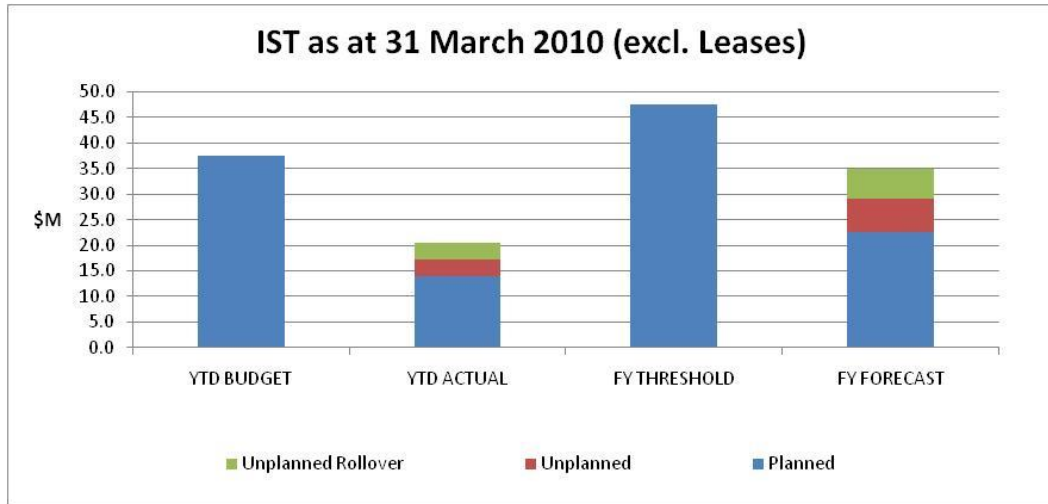
Unplanned / Unplanned Rollover

2009/10	YTD ACTUAL	Full Year FORECAST	Number of projects
Marsden	5.5	9.4	1
National Spares	0.8	8.2	3
Tower painting	5.2	7.5	46
Fences and Civils	2.8	4.0	83
Grillage	2.1	4.3	50
Line Protection	1.6	2.7	73
Buswork	1.9	2.3	21
HVDC capital	0.9	1.6	23

COMPARE TO LAST YEAR (2008/09)



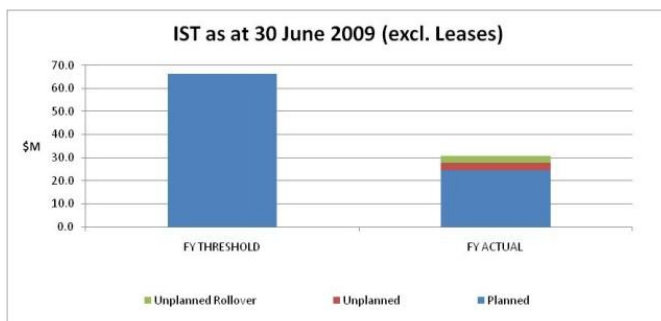
IST (excluding leases)



2009/10	YTD BUDGET	YTD ACTUAL	Full Year THRESHOLD	Full Year FORECAST
TNP	26.6	15.4	33.4	26.2
OTHER	10.8	5.0	14.2	8.9
TOTAL	37.4	20.5	47.6	35.1

Note circa 70% of the IST capex threshold relates to the Telecommunication and Network programme.

COMPARE TO LAST YEAR (2008/09)



4) Explanation for the high percentage of planned projects (2010/11 and 2011/12) that have not completed the approval process;

Grid

THRESHOLD GRID (RRE)		
	2010/11	
Total RRE Threshold	176,260,342	
Number of projects	623	%age
Number Approved	469	75.28%
Dollars Approved (Mar)	126,656,438	71.86%
Dollars Approved (end June)	153,756,438	87.23%
Number Not Approved	154	24.72%
Dollars Not Approved	49,603,904	28.14%
Dollars Not Approved (end June)	22,503,904	12.77%

Currently 72% of 2010/11 expenditure is approved (87% by 30 June 2010) – compare last year 46% approved.

The following 12 projects comprise \$30m of the unapproved 2010/11 expenditure. The balance of the unapproved expenditure (\$19m) relates to over 120 small projects

Business Case Approval expected prior to 1 July 2010

Major unapproved projects	\$m	Comments	Approval by end June
Haywards Synchronous Condensers	REDACTED	Business Case complete – April Board	Yes
VAR revenue Metering		Business Case complete – May Board	Yes
HAY Fire Systems		SSR complete for the four projects – BC and final scope needs to be coordinated with HVDC project	Yes
BEN-DC Installation of new water storage			
HAY – Installation of new water storage			
BEN Fire systems		Business case current being prepared	Yes
BPE HVDC spares warehouse		SSR complete – BC in preparation – target completion May 2010 (most work in 2011/12)	Yes
PEN 33kV Outdoor to Indoor			

Business Case Approval expected after 1 July 2010

TKH T1 replacement transformer	REDACTED	Options review ongoing – provision for down payment % on transformer order	No Investigation into 2010/11
National Spare 66/11kV MVA Transformer		Options reviews (mobile or fixed transformer) ongoing – BC not yet started	
HWA 110kV substation rebuild		SSR will commence in May. Complex project from an outage perspective – budget is for first phase Q4 2010/11 expenditure	
OPK-SFD Reconductoring		SSR currently being prepared. budget is for first phase Q4 2010/11 expenditure	

IST – Project Approval Status

THRESHOLD IST (CAPEX)		
Total IST Threshold	42,479,937	
Number of projects	67	%age
Number Approved	24	35.82%
Dollars Approved	19,870,406	46.78%
Number Not Approved	43	64.18%
Dollars Not Approved	22,609,531	53.22%

UNAPPROVED PROJECTS BROKEN DOWN AS FOLLOWS		
	Number of projects	Value
TNP	8	11,244,119
T&N TACTICAL	7	1,583,981
MSTA	21	7,555,285
ISBA (INFO SYS / BUS. APPS)	6	1,709,240
IS INFRASTRUCTURE	1	516,905
		22,609,530

Circa 50% of proposed 2010/11 expenditure approved - compare to 29% last year approved as of April 2009. Finalisation of investigation and business case for major TNP project components and MSTA (RTU / variable line rating etc) will occur during the financial year.

5) The use of ex-post review for any project that has not completed the approval process.

The focus should not be on the timing of the business case rather on ensuring, ex post, that all ‘threshold’ expenditure incurred during the year was approved in accordance with “least whole of life cost processes” prior to expenditure being committed and/or incurred.

Clarity is required on how such an ex post review would be conducted including details of the process, requirements for Transpower and assessment criteria to applied by the Commission

6) Subjective adjustments for efficiencies and rollovers

Adjustment recommended by Strata in 2009

Unapproved project efficiency adjustments	downward	2.5%
General efficiency adjustment	downward	2.5%
Rollover adjustment	downward	6.0%

THRESHOLD SUMMARY
Three year comparison

Threshold	Current Threshold	Proposed Thresholds	
	2009/10	2010/11	2011/12
RRE	104	176	177
IST capex	48	42	49
IST operating lease	37	28	17
Total	189	246	243

- 2009/10 relates to Threshold as set - post Strata adjustment
- Transpower proposed threshold was \$210m
- Note Forecast outturn for 2009/10 is \$214m

Summary expenditure against current threshold

Threshold	Current Threshold	Expenditure	
	2009/10	YTD mar	FY Fore
RRE	104	88	145
IST capex	48	21	35
IST operating lease	37	31	34
Total	189	140	214