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Chart 1: The technical correction (December decision)

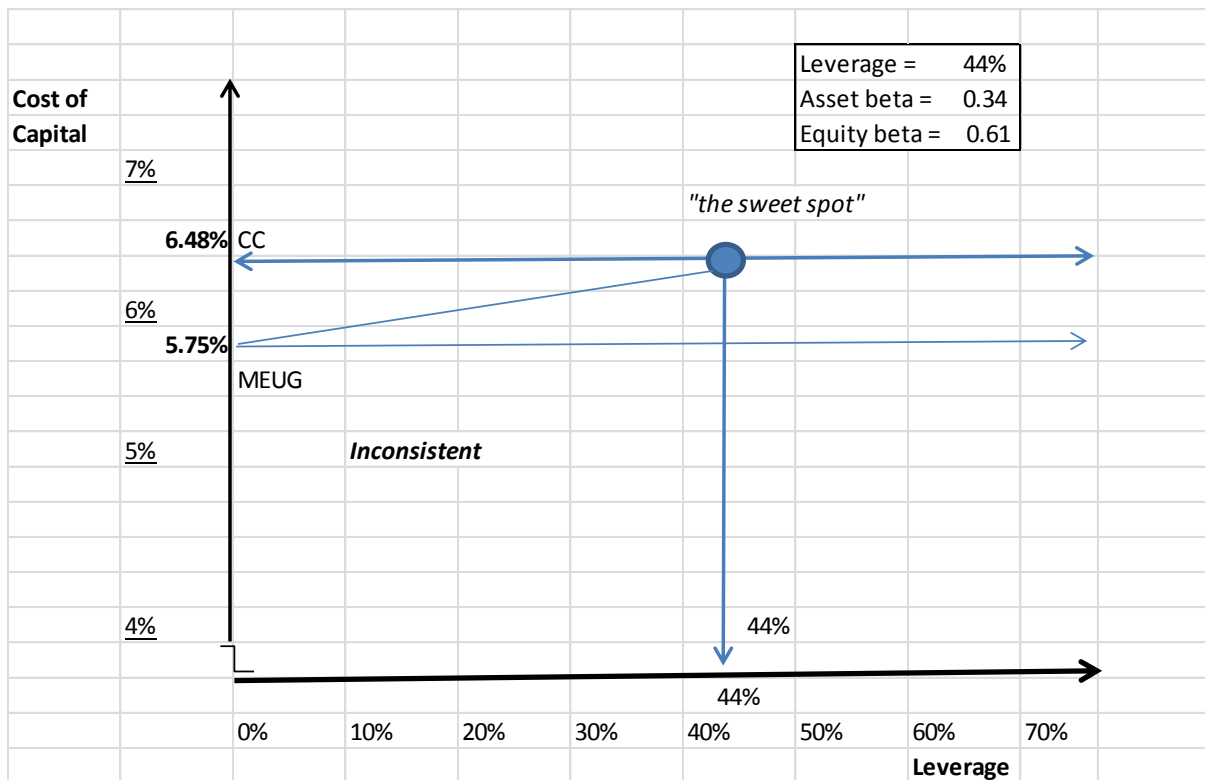


Chart 2: The technical correction (December corrected for inconsistency)

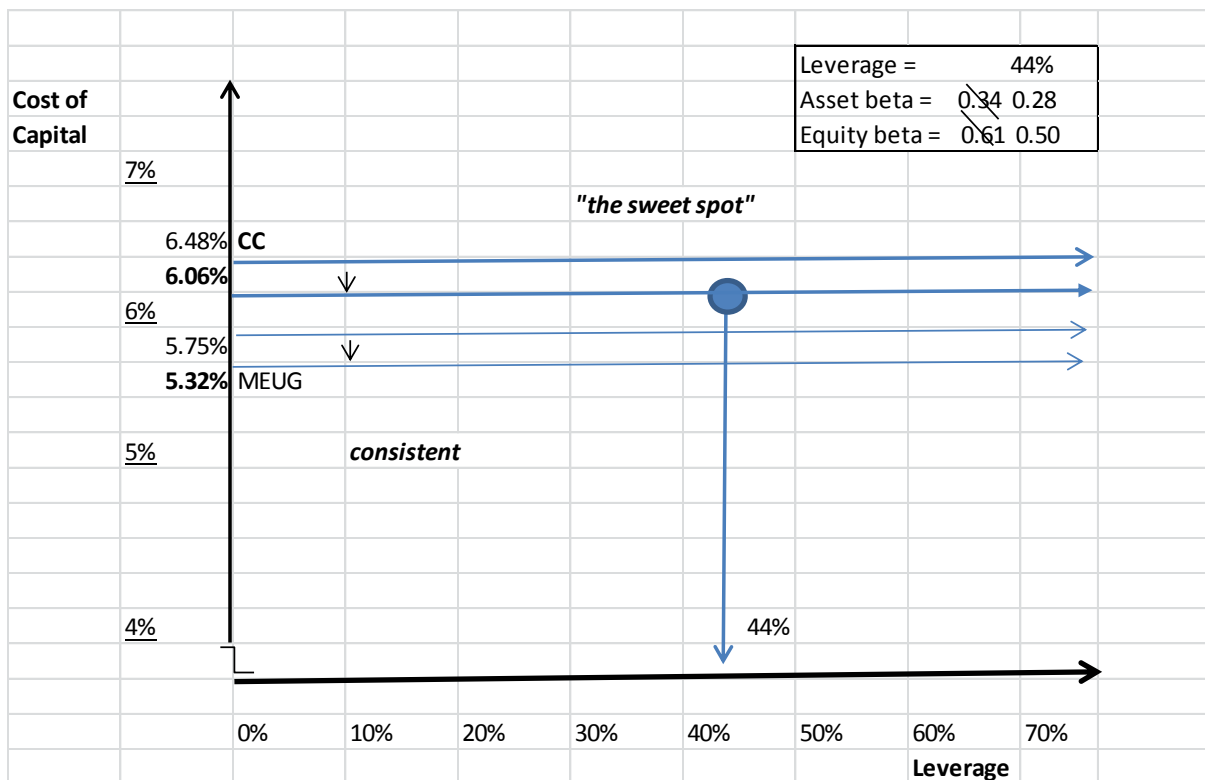


Table: 1 List of comparable firms: leverage and asset beta reanalysis of Commission's comparable samples and data

	Table: 1 List of comparable firms: leverage and asset beta reanalysis of Commission's comparable samples and data													
	Reasons Paper						Draft Reasons Paper				Draft Reasons Paper Data Updated			
	2005-2010		[all sampling periods]				5 years				5 years			
	Leverage	ave.	Asset beta		weekly	Leverage	ave.	monthly	ave.	Leverage	change	Asset beta	change	
Horizon Energy	23%		0.38	0.16		23%		0.18		23%	0%	0.38	0.20	
Vector	56%	40% NZ	0.28	0.33	0.25	0.21	56%	40%	0.29	0.24	56%	0%	0.28	- 0.01
DUET	73%		0.20	0.15		73%		0.20		73%	0%	0.20	-	
Spark Infrastructure	50%		0.19	0.20		49%		0.18		50%	1%	0.19	0.01	
SP AusNet	46%		0.16	0.10		46%		0.10		46%	0%	0.16	0.06	
APA	59%		0.29	0.23										
Envestra	71%		0.14	0.10										
Hastings Diversified Utilities	35%	56% AUS	0.17	0.19	0.54	0.22	56%		0.16					
National Grid	48%	48% UK	0.24	0.24	0.30	0.30	48%	48%	0.23	0.23	48%	0%	0.24	0.01
Allgheny Energy	39%		0.43	0.41		41%		0.54		39%	-2%	0.43	- 0.11	
Allele	24%		0.49	0.47		20%		0.58		24%	4%	0.49	- 0.09	
Alliant Energy	32%		0.31	0.36		31%		0.38		32%	1%	0.31	- 0.07	
Ameren	43%		0.33	0.36		40%		0.45		43%	3%	0.33	- 0.12	
American Electric Power	48%		0.29	0.32		47%		0.30		48%	1%	0.29	- 0.01	
Avista Corp	51%		0.30	0.29										
Black Hills	41%		0.50	0.42		39%		0.70		41%	2%	0.50	- 0.20	
Central Vermont Public Service	36%		0.38	0.33		33%		0.45		36%	3%	0.38	- 0.07	
CH Energy	34%		0.28	0.41		30%		0.28		34%	4%	0.28	-	
Cleco	34%		0.43	0.41		32%		0.37		34%	2%	0.43	0.06	
CMS Energy	67%		0.31	0.25		69%		0.19		67%	-2%	0.31	0.12	
Consolidated Edison	43%		0.15	0.26		42%		0.15		43%	1%	0.15	-	
Constellation Energy	29%		0.41	0.39		33%		0.74		29%	-4%	0.41	- 0.33	
Dominion Resources	41%		0.22	0.27		41%		0.29		41%	0%	0.22	- 0.07	
DPL	30%		0.36	0.38		32%		0.40		30%	-2%	0.36	- 0.04	
DTE Energy	54%		0.21	0.25		54%		0.33		54%	0%	0.21	- 0.12	
Duke Energy	36%		0.34	0.41		36%		0.28		36%	0%	0.34	0.06	
Edison International	39%		0.30	0.37		39%		0.44		39%	0%	0.30	- 0.14	
El Paso Electric	39%		0.27	0.39		39%		0.43		39%	0%	0.27	- 0.16	
Empire District Electric	47%		0.26	0.26		45%		0.42		47%	2%	0.26	- 0.16	
Entergy	36%		0.26	0.31		34%		0.43		36%	2%	0.26	- 0.17	
Exelon	24%		0.29	0.41		25%		0.44		24%	-1%	0.29	- 0.15	
FirstEnergy	42%		0.19	0.32		41%		0.31		42%	1%	0.19	- 0.12	
Great Plains Energy	44%		0.39	0.34		39%		0.48		44%	5%	0.39	- 0.09	
Hawaiian Electric	21%		0.37	0.44		15%		0.48		21%	6%	0.37	- 0.11	
Idscorp	46%		0.28	0.33		46%		0.23		46%	0%	0.28	0.05	
Integrus Energy	43%		0.26	0.32		42%		0.50		43%	1%	0.26	- 0.24	
ITC Holdings	45%		0.48	0.49										
MGE Energy	31%		0.23	0.36		30%		0.20		31%	1%	0.23	0.03	
NextEra Energy [formerly FPL Group]	39%		0.27	0.31		38%		0.39		39%	1%	0.27	- 0.12	
Northeast Utilities	52%		0.20	0.20		54%		0.23		52%	-2%	0.20	- 0.03	
Northwestern Corp	43%		0.42	0.43										
NSTAR	45%		0.22	0.28		45%		0.13		45%	0%	0.22	0.09	
NV Energy	59%		0.40	0.29		61%		0.30		59%	-2%	0.40	0.10	
OGE Energy	37%		0.29	0.32		36%		0.48		37%	1%	0.29	- 0.19	
Peppo	55%		0.26	0.39		55%		0.25		55%	0%	0.26	0.01	
PG&E	42%		0.31	0.31		41%		0.20		42%	1%	0.31	0.11	
Pinnacle West	46%		0.30	0.32		44%		0.35		46%	2%	0.30	- 0.05	
PNM Resources	59%		0.43	0.36		55%		0.46		59%	4%	0.43	- 0.03	
PPL Corporation	35%		0.29	0.33		36%		0.33		35%	-1%	0.29	- 0.04	
Progress Energy	47%		0.24	0.28		47%		0.22		47%	0%	0.24	0.02	
Public Service Enterprise	36%		0.26	0.33		40%		0.34		36%	-4%	0.26	- 0.08	
Scana Corp	46%		0.24	0.29		44%		0.31		46%	2%	0.24	- 0.07	
Southern Corp	38%		0.10	0.20		36%		0.22		38%	2%	0.10	- 0.12	
Teco Energy Corp	50%		0.28	0.32		51%		0.43		50%	-1%	0.28	- 0.15	
UIL Holdings Corp	41%		0.35	0.34		40%		0.44		41%	1%	0.35	- 0.09	
Unisource Energy Corp	61%		0.19	0.16		63%		0.24		61%	-2%	0.19	- 0.05	
Unitil Corp	55%		0.15	0.10		53%		0.13		55%	2%	0.15	0.02	
Westar Energy	49%		0.32	0.27		47%		0.34		49%	2%	0.32	- 0.02	
Wisconsin Energy	46%		0.17	0.24		46%		0.20		46%	0%	0.17	- 0.03	
Xcel Energy	47%		0.35	0.31		48%		0.23		47%	-1%	0.35	0.12	
AGL Resources	46%		0.22	0.32										
Atmos Energy Corp	49%		0.20	0.30										
Centerpoint Energy	65%		0.26	0.23										
Chesapeake Utilities Corp	35%		0.23	0.17										
Laclede Group	41%		0.15	0.33										
National Fuel Gas Co	22%		0.34	0.41										
New Jersey Resources Corp	29%		0.14	0.32										
Nicor Inc	33%		0.31	0.49										
Nisource Inc	58%		0.27	0.26										
Northwest Natural Gas Co	37%		0.15	0.27										
Oneck Inc	55%		0.32	0.37										
Piedmont Natural Gas Co	34%		0.20	0.35										
Sempra Energy	31%		0.43	0.49										
South Jersey Industries	33%		0.18	0.29										
Southwest Gas Corp	52%		0.19	0.28										
Spectra Energy Corp	40%		0.55	0.64										
UGI Corp	40%		0.21	0.32										
Vectren Corp	45%		0.23	0.36										
WGL Holdings Inc	33%	42% USA	0.21	0.29	0.36	0.33	42%		0.35					
Mean	44%		0.28	0.32		42%		0.34		43%	2%	0.29	- 0.06	
Median	43%		0.27	0.32		41%		0.33		43%		0.28	- 0.06	

Sources: December reasons, tables H2 and H18 and June reasons, table 6.14 and F1.

Table 2: List of Comparable Firms: Average Market Leverage and Asset Beta by Regulatory Regime'

Table 2: List of Comparable Firms: Average Market Leverage and Asset Beta by Regulatory Regime						
	Incentive (gas)		Incentive (electricity)		Other/Both	
Horizon Energy			23%	0.38		
Vector			56%	0.28		
DUET			73%	0.20		
Spark Infrastructure			50%	0.19		
SP AusNet			46%	0.16		
APA	59%	0.29				
Envestra	71%	0.14				
Hastings Diversified Utilities	35%	0.17				
National Grid			48%	0.24		
Allegheny Energy					39%	0.43
Allele					24%	0.49
Alliant Energy					32%	0.31
Ameren			43%	0.33		
American Electric Power					48%	0.29
Avista Corp			51%	0.30		
Black Hills			41%	0.50		
Central Vermont Public Service					36%	0.38
CH Energy			34%	0.28		
Cleco			34%	0.43		
CMS Energy					67%	0.31
Consolidated Edison					43%	0.15
Constellation Energy					29%	0.41
Dominion Resources					41%	0.22
DPL					30%	0.36
DTE Energy					54%	0.21
Duke Energy					36%	0.34
Edison International			39%	0.30		
El Paso Electric					39%	0.27
Empire District Electric					47%	0.26
Entergy					36%	0.26
Exelon			24%	0.29		
FirstEnergy					42%	0.19
Great Plains Energy					44%	0.39
Hawaiian Electric					21%	0.37
Idacorp					46%	0.28
Integrus Energy					43%	0.26
ITC Holdings			45%	0.48		
MGE Energy			31%	0.23		
NextEra Energy [formerly FPL Group]			39%	0.27		
Northeast Utilities					52%	0.20
Northwestern Corp					43%	0.42
NSTAR			45%	0.22		
NV Energy					59%	0.40
OGE Energy					37%	0.29
Pepco					55%	0.26
PG&E			42%	0.31		
Pinnacle West			46%	0.30		
PNM Resources					59%	0.43
PPL Corporation					35%	0.29
Progress Energy					47%	0.24
Public Service Enterprise			36%	0.26		
Scana Corp					46%	0.24
Southern Corp			38%	0.10		
Teco Energy Corp			50%	0.28		
UIL Holdings Corp					41%	0.35
Unisource Energy Corp					61%	0.19
Unihl Corp			55%	0.15		
Westar Energy			49%	0.32		
Wisconsin Energy					46%	0.17
Xcel Energy					47%	0.35
AGL Resources	46%	0.22				
Atmos Energy Corp	49%	0.20				
Centerpoint Energy	65%	0.26				
Chesapeake Utilities Corp	35%	0.23				
Laclede Group	41%	0.15				
National Fuel Gas Co	22%	0.34				
New Jersey Resources Corp	29%	0.14				
Nicor Inc	33%	0.31				
Nisource Inc	58%	0.27				
Northwest Natural Gas Co	37%	0.15				
Oneok Inc	55%	0.32				
Piedmont Natural Gas Co	34%	0.20				
Sempra Energy	31%	0.43				
South Jersey Industries	33%	0.18				
Southwest Gas Corp	52%	0.19				
Spectra Energy Corp	40%	0.55				
UGI Corp	40%	0.21				
Vectren Corp	45%	0.23				
WGL Holdings Inc	33%	0.21				
	43%	0.25	43%	0.28	43%	0.30

sources: CC Reasons Paper Tables H2, H17 and H18.

Table 3: Practical importance of the selected asset beta

Inputs		December decision	December decision (adjusted)	
Risk Free	Rf	4.64%	4.64%	
Debt premium	Dp	2.35%	2.35%	
Leverage	L	44%	44%	
Asset beta	Ba	0.34	0.28	
Debt beta	Bd	0.00	0.00	
Market risk Premium	TAMRP	7.1%	7.1%	
Corporate Tax	Tc	28.4%	28.4%	
Investor Tax	Ti	28.2%	28.2%	
Calculations				
Be		0.61	0.50	
Ke		7.64%	6.88%	
Results				
WACC (50th percentile)		6.48% ¹	6.06%	
WACC relative to December Decision		0.00%	-0.42%	
Draft Decision RAB est. ²		\$4,902m	\$4,902m	Variance (pa)
Capital Charges (pa)		\$318m	\$297m	\$21m
Pre-tax charges @	28.40%	\$444m	\$415m	\$29m

¹ The Commission have calculated the WACC at 6.49%. When replicated by MEUG the result is 6.48%.

² This is the same as the assumption in MEUG submission to the Commerce Commission on Pan Industry Input Methodologies for cost of capital, 13th August 2010, paragraph 5, refer <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Draft-Reasons-Papers/Draft-Reasons-EDBs/Costcapital-Sub/MEUG-Submission-on-EDB-Input-Methodologies-Draft-Determination-and-Reasons-Paper-13-August-2010.pdf>

Table 4: Breakeven analysis

Inputs		December decision (adjusted ³)	Breakeven leverage
Risk Free	Rf	4.64%	4.64%
Debt premium	Dp	2.35%	2.35%
Leverage	L	44%	19%
Asset beta	Ba	0.28	0.34
Debt beta	Bd	0.00	0.00
Market risk Premium	TAMRP	7.1%	7.1%
Corporate Tax	Tc	28.4%	28.4%
Investor Tax	Ti	28.2%	28.2%
Calculations			
Be		0.50	0.42
Ke		6.88%	6.31%
Results			
WACC (50th percentile)		6.06%	6.06%

³ Asset beta adjusted to midpoint of December comparable companies.

Table 5: Aerodrom Ljubljana analysis

Euros	2008	2009	2010
Cash and Cash Equivalents	498,796	286,033	251,543
Available-for-sale financial assets [bonds, shares financial assets]	23,034,313	18,601,687	17,051,988
Current financial assets [financial assets and short-term loans]	13,340,726	13,116,611	15,005,984
	<u>36,873,835</u>	<u>32,004,331</u>	<u>32,309,515</u>
Total Assets	124,045,257	128,071,992	128,108,228
"Cash Assets"/Total Assets	30%	25%	25%
Commerce Commission Net Debt/Net Debt plus Equity (at MV)	0%	0%	0%

source: <http://www.lju-airport.si/eng/about-the-company/investor-info/financial-reports>

Table 6: Summary⁴

	June decision	December decision	MEUG Submission	Materiality test (change in pre-tax transmission capital charges)
L βa WACC	40% 0.34 6.50%	44% 0.34 6.48%		
(1) <u>Consistency</u> L βa WACC			44% 0.28 6.06%	-\$29m pa
(2) <u>National Grid</u> L βa WACC			48% 0.24 5.84%	-\$44m pa
(3) <u>L=0</u> L βa WACC			0% 0.28 5.32%	-\$80m pa

⁴ Mid-points used.

STATEMENT OF CORPORATE INTENT



3. Pricing Policy

Transpower will determine its revenue required this year and price the services it provides, taking into account the specific objectives marked 1.1 to 1.3 in Part A, having regard to:

- the budgeted costs for Transpower for the 1999/2000 financial year and the budgeted costs for the next two succeeding years;
- a commercially appropriate return on investment having regard to the risk of the business and the maintenance of commercially appropriate financial ratios;
- price stability and predictability for Transpower's users;
- the benefits flowing to users from the services provided by Transpower.

The revenue resulting from the application of these principles will be recovered from Transpower's users having regard to the principles outlined by the Government in its "Statement to the Commerce Commission of the Economic Policy of the Government: Electricity Transmission".

4. Weighted Average Cost of Capital

Weighted Average Cost of Capital equals the Rate of Return (RoR) multiplied by the proportion of equity plus the after-tax cost of debt multiplied by the proportion of debt.

Transpower intends to calculate its required rate of return on the basis of the Capital Assets Pricing Model (CAPM), which is widely used and takes into account the current imputation credit regime. In CAPM the RoR is expressed as follows:

$$RoR = Rf (1 - T) + Be \times PTMRP + DIA$$

Where:

RoR is the economic Rate of Return on equity.

Rf (1 - T) is the Post-Tax Risk-Free Return.

T is the Tax Parameter relating to interest.

Be is the Equity Beta.

PTMRP is the Post-Tax Market Risk Premium.

DIA is the Dividend Imputation Adjustment.

Based on the assumptions for the period 1999/2000 to 2001/2002, the following parameters are used in Transpower's CAPM:

	2000	2001	2002
Risk Free Rate (R)	5.8%	5.8%	5.8%
Corporate Tax Rate (T)	33%	33%	33%
Asset Beta (B _A)	0.25	0.25	0.25
Equity	42%	43%	45%
Equity Beta (B _E)	0.60	0.58	0.56
Post-Tax Market Risk Premium (PTMRP)	9%	9%	9%
Interest Tax Parameter (T _i)	20%	20%	20%
Dividend Imputation Adjustment	-0.20%	-0.21%	-0.19%
Cost of Equity (R _E)	9.8%	9.7%	9.5%
Debt Margin (dm)	0.79%	0.79%	0.79%
Cost of Debt (R _D)	6.6%	6.6%	6.6%
Weighted Average Cost of Capital	6.7%	6.7%	6.7%

③ PRICING POLICY

3

Transpower will determine its revenue required this year and price the services it provides taking into account the specific objectives marked 1.1 to 1.3 in Part A, having regard to:

- The budgeted costs for Transpower for the 2000/2001 financial year and the budgeted costs for the next two succeeding years;
- A commercially appropriate return on investment having regard to the risk of the business and the maintenance of commercially appropriate financial ratios;
- Price stability and predictability for Transpower's users;
- The benefits flowing to users from the services provided by Transpower.

The revenue resulting from the application of these principles will be recovered from Transpower's users having regard to the principles outlined by the Government in its "Statement to the Commerce Commission of the Economic Policy of the Government: Electricity Transmission".

④ WEIGHTED AVERAGE COST OF CAPITAL

Weighted Average Cost of Capital equals the Rate of Return (RoR) multiplied by the proportion of equity plus the after tax cost of debt multiplied by the proportion of debt.

Transpower intends to calculate its required rate of return on the basis of the Capital Assets Pricing Model (CAPM) which is widely used and takes into account the current imputation credit regime.

In CAPM the RoR is expressed as follows:

$$\text{RoR} = \text{RF} (1 - \text{T}_i) + \text{Be} \times \text{PTMRP} + \text{DIA}$$

Where:

RoR is the economic rate of return on equity;

RF (1 - T_i) is the Post Tax Risk-Free Return;

T_i is the Tax Parameter relating to interest;

Be is the Equity Beta;

PTMRP is the Post Tax Market Risk Premium;

DIA is the Dividend Imputation Adjustment.

Based on the assumptions for the period 2000/2001 to 2002/2003, the following parameters are used in Transpower's CAPM:

	2001	2002	2003
Risk Free Rate (R _f)	7%	7.1%	6.7%
Corporate Tax Rate (T _c)	33%	33%	33%
Asset Beta (B _a)	0.25	0.25	0.25
Equity (%)	45%	45%	46%
Equity Beta (B _e)	0.56	0.55	0.54
Post Tax Market Risk Premium (PTMRP)	8%	8%	8%
Interest Tax Parameter (T _i)	20%	20%	20%
Dividend Imputation Adjustment	-0.17%	-0.14%	-0.13%
Cost of Equity (R _e)	9.9%	9.9%	9.6%
Debt Margin (dm)	0.80%	0.80%	0.80%
Cost of Debt (R _d)	7.8%	7.9%	7.5%
Weighted Average Cost of Capital	7.3%	7.4%	7.1%

04

Based on the assumptions for the period 2001/2002 to 2003/2004, the following parameters are used in Transpower's CAPM:

	Plan	Indicative Only	
	2001/2002	2002/2003	2003/2004
Risk Free Rate (Rf)	6.10%	6.54%	6.60%
Corporate Tax Rate (Tc)	33%	33%	33%
Asset Beta (Ba)	0.25	0.25	0.25
Equity %	46.2%	46.8%	48.0%
Equity Beta (Be)	0.54	0.53	0.52
Post Tax Market Risk Premium (PTMRP)	8.0%	8.0%	8.0%
Interest Tax Parameter (TI)	19.8%	19.8%	19.8%
Dividend Imputation Adjustment	-0.15%	-0.10%	-0.13%
Cost of Equity (Re)	9.1%	9.4%	9.3%
Debt Margin (dm)	1.30%	1.30%	1.30%
Cost of Debt (Rd)	7.3%	7.8%	7.9%
Weighted Average Cost of Capital	6.80%	7.20%	7.20%

C Other Business Management Objectives

① HUMAN RESOURCES POLICY

A Human Resource Policies and Equal Employment Opportunity (EEO) Programme

As both a good employer and sound commercial operator, committed to maintaining a well qualified and motivated staff, Transpower will undertake initiatives that enhance the availability of skilled staff and operate a human resource policy that treats employees fairly and properly in all aspects of their recruitment, retention and employment. Modern and sensitive human resource policies, including performance management systems, will continue to provide for:

- > the impartial selection of suitably qualified persons for appointment;
- > equitable treatment of all staff;
- > training opportunities to motivate and increase the skill levels of staff and enhance the abilities of individual employees; and
- > satisfying and rewarding career opportunities.

Transpower will ensure that EEO policies and programmes are integrated with other personnel policies and will operate these policies in accordance with relevant legislation.

B Working Conditions

Transpower will promote a high level of safety throughout the organisation and will ensure that all safety management programmes meet legislative requirements.

Transpower will take all practicable steps to provide its employees with good and safe working conditions and training to support this. It will also take all practicable steps to ensure that the employees of its contractors are provided with good and safe working conditions.

04 4 WEIGHTED AVERAGE COST OF CAPITAL

Weighted Average Cost of Capital equals the Cost of Equity multiplied by the proportion of equity plus the after tax cost of debt multiplied by the proportion of debt.

Transpower intends to calculate its required rate of return on the basis of the Capital Asset Pricing Model (CAPM) which is widely used and takes into account the current imputation credit regime. The particular CAPM model used by Transpower is attached as Appendix 3.

Based on the assumptions for the period 2002/2003 to 2004/2005, the following parameters are used in Transpower's CAPM:

	PLAN	INDICATIVE ONLY	
	2002/2003	2003/2004	2004/2005
Risk Free Rate (Rf)	6.9%	6.6%	6.5%
Corporate Tax Rate (Tc)	33%	33%	33%
Asset Beta (Ba)	0.25	0.25	0.25
Equity %	45%	46%	46%
Equity Beta (Be)	0.55	0.55	0.54
Post Tax Market Risk Premium (PTMRP)	8%	8%	8%
Interest Tax Parameter (TI)	19.8%	19.8%	19.8%
Dividend Imputation Adjustment	-0.14%	-0.14%	-0.15%
Cost of Equity (Re)	9.8%	9.6%	9.4%
Debt Margin (dm)	1.15%	1.15%	1.15%
Cost of Debt (Rd)	8.1%	7.8%	7.7%
Weighted Average Cost of Capital	7.4%	7.2%	7.1%

C OTHER BUSINESS MANAGEMENT OBJECTIVES

1 HUMAN RESOURCES POLICY

a) *Human Resource Policies and Equal Employment Opportunity (EEO) Programme*

As both a good employer and sound commercial operator, committed to maintaining a well-qualified and motivated staff, Transpower will undertake initiatives that enhance the availability of skilled staff and operate a human resource policy that treats employees fairly and properly in all aspects of their recruitment, retention and employment. Modern and sensitive human resource policies, including performance management systems, will continue to provide for:

- the impartial selection of suitably qualified persons for appointment;
- equitable treatment of all staff;
- training opportunities to motivate and increase the skill levels of staff and enhance the abilities of individual employees; and
- satisfying and rewarding career opportunities.

Transpower will ensure that EEO policies and programmes are integrated with other personnel policies and will operate these policies in accordance with relevant legislation.