

Company Name	Waipa Networks Limited
For Year Ended	31 March 2014

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule requires EDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, and 2.5.2.
2. This Schedule is mandatory—EDBs must provide the explanatory comment specified below, in accordance with clause 2.7.1. Information provided in boxes 1 to 12 of this schedule is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for EDBs to give additional explanation of disclosed information should they elect to do so.

Return on Investment (Schedule 2)

4. In the box below, comment on return on investment as disclosed in Schedule 2. This comment must include information on reclassified items in accordance with clause 2.7.1(2).

Box 1: Explanatory comment on return on investment

The return on investment (schedule 2) has been completed in accordance with the Commerce Commission's requirements. There were no reclassified items during the year.

Our disclosed ROI's are above the 75th percentile. Waipa Networks paid discretionary discounts of \$2,486K to our Customers during the year to share the benefits of efficiency gains with our Customers.

With no change in revenue, If we had not paid the discounts the ROI's would have been below the 75th percentile due to an anomaly in the tax treatment of paid discretionary discounts in the Commerce Commissions ROI formula, refer table below.

	ROI Post Tax WACC	ROI Vanilla WACC
As disclosed in schedule 2	6.90%	7.58%
75 th percentile	6.14%	6.83%
Result if no discretionary discounts paid to customers	6.06%	6.74%

The 2012 and 2013 ROI's have been restated to reflect the adjustment required by the Commerce Commission for total revaluation in the tax calculation.

Regulatory Profit (Schedule 3)

5. In the box below, comment on regulatory profit for the disclosure year as disclosed in Schedule 3. This comment must include-
 - 5.1 a description of material items included in 'other regulatory line income' other than gains and losses on asset sales, as disclosed in 3(i) of Schedule 3
 - 5.2 information on reclassified items in accordance with clause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

The regulatory profit (schedule 3) has been completed in accordance with the Commerce Commission's requirements. There are no material items that need to be disclosed. There were no reclassified items during the year.

Merger and acquisition expenses (3(iv) of Schedule 3)

6. If the EDB incurred merger and acquisitions expenditure during the disclosure year, provide the following information in the box below-
 - 6.1 information on reclassified items in accordance with clause 2.7.1(2)
 - 6.2 any other commentary on the benefits of the merger and acquisition expenditure to the EDB.

Box 3: Explanatory comment on merger and acquisition expenditure

There was no merger and acquisition expenses during the year.

Value of the Regulatory Asset Base (Schedule 4)

7. In the box below, comment on the value of the regulatory asset base (rolled forward) in Schedule 4. This comment must include information on reclassified items in accordance with clause 2.7.1(2).

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)

The value of the regulatory asset base (schedule 4) has been completed in accordance with the Commerce Commission's requirements. There were no reclassified items during the year.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the following items, as recorded in the asterisked categories in 5a(i) of Schedule 5a-
 - 8.1 income not included in regulatory profit / (loss) before tax but taxable;
 - 8.2 expenditure or loss in regulatory profit / (loss) before tax but not deductible;
 - 8.3 income included in regulatory profit / (loss) before tax but not taxable;

8.4 expenditure or loss deductible but not in regulatory profit / (loss) before tax.

Box 5: Regulatory tax allowance: permanent differences

There were no permanent differences in schedule 5a

Regulatory tax allowance: disclosure of temporary differences (5a(vi) of Schedule 5a)

9. In the box below, provide descriptions and workings of items recorded in the asterisked category 'Tax effect of other temporary differences' in 5a(vi) of Schedule 5a.

Box 6: Temporary differences / Tax effect of other temporary differences (current disclosure year)

Tax effect of movements in wages provisions (annual leave etc.) and Creditors (Audit fees etc.)

Wages Provisions	152
Creditors	97
Total Temporary Timing Differences 31 March 2013	249
Wages Provisions	159
Creditors	102
Total Temporary Timing Differences 31 March 2014	261
Movement in Timing Differences	(12)
Tax effect of timing difference	3

Related party transactions: disclosure of related party transactions (Schedule 5b)

10. In the box below, provide descriptions of related party transactions beyond those disclosed on schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under clause 2.3.6(1)(b).

Box 7: Related party transactions

Full information is disclosed in Schedule 5b.

Cost allocation (Schedule 5d)

11. In the box below, comment on cost allocation as disclosed in Schedule 5d. This comment must include information on reclassified items in accordance with clause 2.7.1(2).

Box 8: Cost allocation

Operating costs are allocated to the Electricity Distribution business using the Avoidable Cost Allocation Methodology (ACAM). There were no reclassified items during the year.

Asset allocation (Schedule 5e)

12. In the box below, comment on asset allocation as disclosed in Schedule 5e. This comment must include information on reclassified items in accordance with clause 2.7.1(2).

Box 9: Commentary on asset allocation

Assets are allocated to the Electricity Distribution business using the Avoidable Cost Allocation Methodology (ACAM). There were no reclassified items during the year.

Capital Expenditure for the Disclosure Year (Schedule 6a)

13. In the box below, comment on capital expenditure for the disclosure year, as disclosed in Schedule 6a. This comment must include-
- 13.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;
 - 13.2 information on reclassified items in accordance with clause 2.7.1(2),

Box 10: Explanation of capital expenditure for the disclosure year

Waipa Networks' materiality threshold is 10% for capital expenditure on any category of network assets capital expenditures exceeding \$250,000. Material projects are also those that span multiple years.

\$753k budgeted for new vehicles, plant and equipment that were reclassified as contracting assets from non-network assets and no longer appear in Schedule 6a.

Operational Expenditure for the Disclosure Year (Schedule 6b)

14. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-
- 14.1 commentary on assets replaced or renewed with asset replacement and renewal operating expenditure, as reported in 6b(i) of Schedule 6b;
 - 14.2 information on reclassified items in accordance with clause 2.7.1(2);
 - 14.3 commentary on any material atypical expenditure included in operational expenditure disclosed in Schedule 6b, a including the value of the expenditure the purpose of the expenditure, and the operational expenditure categories the expenditure relates to.

Box 11: Explanation of operational expenditure for the disclosure year

Expenditure on asset replacement and renewal fell short of forecast by \$85k (27%) due to Waipa Networks' internal field resources being deployed on other customer driven works.

Asset replacement and renewal includes:

- 11kV voltages regulators;
- distribution transformers;
- 11kV switchgear (Ring Main Units, Reclosers, Air Break Switches, etc.);
- 400V distribution pillars.

\$145K of standby payments to provide after hours fault services is classified as service interruption and emergencies where as they were budgeted in other maintenance categories this year.

Waipa Networks had no atypical expenditure during the disclosure year (March 14).

Variance between forecast and actual expenditure (Schedule 7)

15. In the box below, comment on variance in actual to forecast expenditure for the disclosure year, as reported in Schedule 7. This comment must include information on reclassified items in accordance with clause 2.7.1(2).

Box 12: Explanatory comment on variance in actual to forecast expenditure**Capital Expenditure**

\$753k budgeted for new vehicles, plant and equipment that were reclassified as contracting assets from non-network assets.

Total expenditure on Network Assets was on target \$7,707k compared with budget of \$7,735k. However there were significant variances within the individual expenditure components driven by customer demands.

External Customer Driven Work:

Consumer connection related works exceeded forecast by \$1,019k (62%) due to an unexpected up-turn in subdivision activity compared to previous years.

Asset relocations exceeded forecast by \$807k (82%) due to timing of work on the Waikato Expressway and replacement of Transpower's Cambridge switchboard.

The Waikato Expressway project was not only fast tracked but employed a new approach whereby excavated materials were relocated on site thereby requiring asset relocations along most of the route at an early stage of development rather than the more usual staged relocations over the life of the project.

Overhead to underground conversion (a subcomponent of expenditure on assets) exceeded forecast by \$27k (14%) primarily due to NZTA requirement to underground lines along the new Waikato Expressway alignment.

A catastrophic failure of Transpower's 11kV switchboard at Cambridge GXP and its fast tracked replacement meant that all cable connections from the old switchboard had to be relocated onto the new switchboard earlier than planned.

The increased work outlined here had a material impact on the resources available for other capital and operational works with the consequent changes.

Other Capital Works:

Asset replacement and renewal fell short of forecast by \$404k (46%) due to Waipa Networks' internal field resources being deployed on other customer driven works.

Quality of supply fell short of forecast by \$1,285k (37%) due to delays in consenting and property right negotiations for Waipa Networks' second 110kV line to Te Awamutu when the proposed line route was amended in response to community feedback.

Operational Expenditure

Waipa Networks' overall operational expenditure fell short of forecast by \$320k (7%). Half of this was derived from Network Opex and half from support operations.

Network Opex:

Vegetation management fell short of forecast by \$52k (10%) due to Waipa Networks' arborists doing less 'hot spotting' (i.e. tackling individual tree problems).

Routine and corrective maintenance and inspection fell short of forecast by \$93k (13%) due to

Waipa Networks' planning, inspection and field resources being deployed on customer driven capital works.

Expenditure on asset replacement and renewal fell short of forecast by \$85k (27%) due to Waipa Networks' internal field resources being deployed on other customer driven works. Asset replacement and renewal includes:

- 11kV voltages regulators;
- distribution transformers;
- 11kV switchgear (Ring Main Units, Reclosers, Air Break Switches, etc.);
- 400V distribution pillars.

Overall network operational expenditure fell short of forecast by \$152k (7%).

Support Opex:

System operations and network support fell short of forecast by \$206k (19%) primarily due to not being able to appoint a Planning Engineer during the disclosure year.

Overall non-network operational expenditure fell short of forecast by \$168k (6%).

Expenditure on Assets

Additional expenditure was required by the Waikato Expressway.

Operational Expenditure

A new programme for promoting energy efficiency this year was Waipa Networks' Healthier Homes Programme initiative (part of the governments insulation "Warm Up New Zealand" initiative) costing \$99k.

Waipa Networks had no atypical expenditure during the disclosure year (March 14).

Information relating to revenue and quantities for the disclosure year

16. In the box below provide-

- 16.1 a comparison of the target revenue disclosed before the start of the disclosure year, in accordance with clauses 2.4.1 and 2.4.3(3) to total billed line charge revenue for the disclosure year, as disclosed in Schedule 8; and
- 16.2 explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue.

Box 13: Explanatory comment relating to revenue for the disclosure year

Target revenue for 2014 was \$23,192K as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2014 was \$22,054K.

The variance between target revenue and total billed revenue for the year is (4.91)%.

The targeted revenue is pre posted discounts and includes charges to sub networks. Adjusted target revenue for 2014 was \$21,842K. The variance between the adjusted target revenue and total billed revenue for the year is 0.97%.

Network Reliability for the Disclosure Year (Schedule 10)

17. In the box below, comment on network reliability for the disclosure year, as disclosed in Schedule 10.

Box 14: Commentary on network reliability for the disclosure year

SAIFI and SAIDI by class for network reliability

Planned SAIFI for the network was 0.14 compared to AMP 2013 target of 0.13

Planned SAIDI for the network was 36 minutes compared to AMP 2013 target of 38 minutes

Unplanned SAIFI for the network was 1.73 compared to AMP 2013 target of 2.31

Unplanned SAIDI for the network was 87.1 minutes compared to AMP 2013 target of 133 minutes

Waipa Networks achieved AMP 2013 target for network reliability in the disclosure year.

There were no exceptional weather or other operational events occurring during the disclosure year.

Insurance cover

18. In the box below provide details of any insurance cover for the assets used to provide electricity distribution services, including-

18.1 the EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;

18.2 in respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 15: Explanation of insurance cover

Waipa Networks does not insure any network distribution assets.

Waipa Network does not retain, manage or invest any reserves for the purposes of self insurance.

Company Name	Waipa Networks Limited
For Year Ended	31 March 2014

Schedule 14a Mandatory Explanatory Notes on Forecast Information

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule provides for EDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
2. This Schedule is mandatory—EDBs must provide the explanatory comment specified below, in accordance with clause 2.7.2. This information is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.

Commentary on difference between nominal and constant price capital expenditure forecasts (Schedule 11a)

3. In the box below, comment on the difference between nominal and constant price capital expenditure for the disclosure year, as disclosed in Schedule 11a.

Box 1: Commentary on difference between nominal and constant price capital expenditure forecasts

Waipa Networks reviews and refines the capital forecasts of expenditure on networks assets every year, and, the majority of capital and maintenance works are completed in the following year. Therefore, impact of nominal prices against constant prices is minimal.

Commentary on difference between nominal and constant price operational expenditure forecasts (Schedule 11b)

4. In the box below, comment on the difference between nominal and constant price operational expenditure for the disclosure year, as disclosed in Schedule 11b.

Box 2: Commentary on difference between nominal and constant price operational expenditure forecasts

Waipa Networks reviews and refines the operational forecasts of expenditure on networks assets every year, and, the majority of capital and maintenance works are completed in the following year. Therefore, impact of nominal prices against constant prices is minimal.

Company Name	Waipa Networks Limited
For Year Ended	31 March 2014

Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule enable EDBs to provide, should they wish to-
 - 1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.21, 2.4.22, 2.5.1, 2.5.2, and 2.6.5;
 - 1.2 information on any substantial changes to information disclosed in relation to a prior disclosure year, as a result of final wash-ups.
2. Information in this Schedule is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.
3. Provide additional explanatory comment in the box below.

Box 1: Voluntary explanatory comment on disclosed information

[Insert text below]