

Company Name	Waipa Networks Limited
For Year Ended	31 March 2016

## **Schedule 14 Mandatory Explanatory Notes**

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 subclauses 2.5.1(1)(f), and 2.5.2(1)(e).
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 subclause 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.

### *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 regulated income (other than gains / (losses) on asset disposals), as disclosed in 3(i) of Schedule 3
  - 5.2 information on reclassified items in accordance with subclause 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 subclause 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 subclause 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 material items recorded in the following asterisked categories of 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**

8.1 Income not included in regulatory profit/(loss) before tax but taxable is as follows;

Current year portion of the Third Party Contribution costs which are being amortised over 10 years	\$513k
Revenue from Miscellaneous fees	\$ 15k
Total Permanent differences	\$528k

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

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

**Box 6: 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	\$148k
Creditors	\$107k
Total Temporary Timing Differences 31 March 2015	\$251k
Wages Provisions	\$145k
Creditors	\$92k
Total Temporary Timing Differences 31 March 2016	\$237k
Movement in Timing Differences	\$14k
Tax effect of timing difference	\$5k

*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 subclause 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 subclause 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 subclause 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 expenditure on assets 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 subclause 2.7.1(2),

**Box 10: Explanation of capital expenditure for the disclosure year**

Capital Expenditure

Capital Expenditure on network asset was \$16,431k which was \$3,500k (18%) below the forecast of \$19,931k set for the disclosure year (March 2016) due primarily to delays in commencing construction on the Hangatiki to Te Awamutu 110kV line from landowner access negotiations. There was also less expenditure on consumer connection, but this was offset to a degree by higher expenditure on asset replacement and renewal.

Materiality

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.

Reclassified Items

No expenditure was reclassified during the disclosure year (March 2016).

Atypical Capital Expenditure

No atypical capital expenditure occurred during the disclosure year (March 2016).

*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 operational expenditure, as reported in 6b(i) of Schedule 6b;

- 14.2 Information on reclassified items in accordance with subclause 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**

Operational Expenditure

Overall Operational Expenditure was \$5,729k which was \$610k (12%) above forecast of \$5,119k set for the disclosure year (March 2016). Additional expenditure of \$182k was incurred in the Service Interruptions and Emergencies category due to more storms than usual. None of these storms qualified as exceptional weather events. Additional expenditure of \$139k on Routine and Corrective Maintenance and Inspection was mainly related to increased earth testing.

Asset Replacement and Renewal

This category involves the replacement and renewal of 11kV poles, crossarms, insulators and conductors, substation sites and, voltage regulator componentry, Ring Main Unit componentry, recloser componentry and 400V distribution pillars that have physically deteriorated and are no longer fit for purpose.

Asset Replacement and Renewal expenditure of \$461k exceeded the forecast of \$355k by \$106k (30%) for the disclosure year (March 2016). Asset replacement and renewal activity is driven by routine asset condition surveys and failures in service. Increased expenditure on transformers and voltage regulator maintenance was a driver.

Reclassified Items

No items were reclassified during the disclosure year (March 2016).

Atypical Operational Expenditure

No atypical operational expenditure occurred during the during the disclosure year (March 2016).

*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 subclause 2.7.1(2).

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

Capital Expenditure

Consumer Connections: Expenditure was \$1,757k which was 24% below the forecast of \$2,314k.

System Growth: Expenditure was \$754k which was 26% above the forecast of \$598k.

Asset Replacement and Renewal: Expenditure was \$1,109k which was 10% below the forecast of \$1,237k.

Asset Relocation: Expenditure was \$103k which exceeded forecast of \$97k by \$6k (7%) due to Local Council and NZTA road redevelopment and deviations.

Reliability, Safety and Environment (Quality of Supply): Expenditure was \$11,983k which fell short of the forecast of \$15,393k by \$3,410k (22%) due primarily to protracted progress on securing property rights for the Hangatiki to Te Awamutu 110kV line delaying the start of construction.

Reliability, Safety and Environment (Other Reliability, Safety and Environment): Expenditure was \$725k which exceeded the forecast of \$292k by \$433k (148%). This included \$80k of undergrounding feeder sections that crossed the Hangatiki – Te Awamutu 110kV line route, and \$80k of undergrounding high load route road crossings to improve safety.

Expenditure on Non-Network Assets: Annual budget \$158k, actual expenditure was \$158k. \$100k was budgeted for the seismic reinforcement of Cambridge Ripple Plant building, of which \$43k was classified as capital and the balance was classified as maintenance. A new vehicle was purchased (\$37k) that had not been allowed for in the budget.

Operational Expenditure

Service Interruptions and Emergencies: Expenditure was \$817k which exceeded the forecast of \$635k by \$182k (29%) primarily due to more storms than usual.

Vegetation Management: Expenditure of \$560k exceeded the forecast of \$501k by \$59k (12%) due to reactive tree trimming.

Routine and Corrective Maintenance and Inspection: Expenditure was \$949k which exceeded the forecast of \$810k by \$139k (17%) due to increased earth testing.

Asset replacement and Renewal: Expenditure was \$461k which exceeded the forecast of \$355k by \$106k (30%) due to more voltage regulator and switchgear maintenance.

Non-Network Operational Expenditure: Expenditure was \$2,942k which was within 4% of forecast of \$2,818k.

Overall Operational Expenditure was \$5,729k which was within 12% of forecast of \$5,119k.

No atypical capital or operational expenditure has been incurred during the disclosure year (March 16).

*Information relating to revenues 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 clause 2.4.1 and subclause 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 2016 was \$24,526K as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2016 was \$23,956K.

The variance between target revenue and total billed revenue for the year is (2.32)%.

The targeted revenue is from the 2014 pricing methodology as these were restated in the 2015 pricing methodology to reflect the fact that our pricing did not change from 1 April 2015 and therefore was based on these figures. The target revenue is pre posted discounts and includes charges to sub networks. Adjusted target revenue for 2016 was \$22,546K. The variance between the adjusted target revenue and total billed revenue for the year is 6.25%.

*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 0.16 compared to AMP 2015 target of 0.14

Planned SAIDI for the network was 43.5 minutes compared to AMP 2015 target of 35 minutes

Unplanned SAIFI for the network was 2.09 compared to AMP 2015 target of 2.28

Unplanned SAIDI for the network was 146.6 minutes compared to AMP 2015 target of 134 minutes

Total SAIFI for the network was 2.25 compared to AMP 2015 target of 2.42

Total SAIDI for the network was 190.1 minutes compared to AMP 2015 target of 169 minutes

There were no exceptional weather events or other operational events during the disclosure year (March 2016). However, there were a high number of storms which resulted in a numerous trees toppling into power lines and wind borne tree debris from trees outside the Notice Zone shorting out power lines. Other major contributions to unplanned SAIDI were third party damage from car versus pole accidents and failed insulators. These had a significant adverse effect on unplanned SAIDI minutes during 2015/16.

Waipa Networks achieved two out of six reliability targets set in AMP 2015 for network reliability in 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.



*Amendments to previously disclosed information*

19. In the box below, provide information about amendments to previously disclosed information disclosed in accordance with clause 2.12.1 in the last 7 years, including:

19.1 a description of each error; and

19.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

**Box 16: Disclosure of amendment to previously disclosed information**

In Schedule 4.RAB Value (Rolled Forward) 4 (ii) we omitted to split the assets commissioned between other and related party for the year ended 31 March 2015.

Correct information is;

Assets commissioned (other than below)	62
Assets acquired from a regulated supplier	–
Assets acquired from a related party	3,313

In Schedule 4.RAB Value (Rolled Forward) 4 (ii) we omitted to split the assets commissioned between other and related party for the year ended 31 March 2014.

Correct information is;

Assets commissioned (other than below)	90
Assets acquired from a regulated supplier	–
Assets acquired from a related party	3,560

In Schedule 4.RAB Value (Rolled Forward) 4 (ii) we omitted to split the assets commissioned between other and related party for the year ended 31 March 2013.

Correct information is;

Assets commissioned (other than below)	13
Assets acquired from a regulated supplier	–
Assets acquired from a related party	4,379

Publicly disclosed in accordance with clause 2.12.1 at [www.waipanetworks.co.nz](http://www.waipanetworks.co.nz)

Company Name	Waipa Networks Limited
For Year Ended	31 March 2015

## **Schedule 14a      Mandatory Explanatory Notes on Forecast Information**

1. This Schedule requires EDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.6.
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 current disclosure year and 10 year planning period, 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 network assets every year. We have used the midpoint of the Reserve Banks inflation target for our indexation, currently 2% p.a.

*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 current disclosure year and 10 year planning period, 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 expenditure on networks assets every year. We have used the midpoint of the Reserve Banks inflation target for our indexation, currently 2% p.a.

Company Name	<u>Waipa Networks Limited</u>
For Year Ended	<u>31 March 2016</u>

### **Schedule 15      Voluntary Explanatory Notes**

1. This schedule enables 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 and 2.5.2;
  - 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]