Company Name	Waipa Networks Limited
For Year Ended	31 March 2017

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.

Our disclosed ROI's are above the 75th percentile. CPI for the year was 2.17% which was higher than the expected CPI of 1.5% and last years of 0.59%. Waipa Networks paid discretionary discounts of $1,170K to our Customers during the year to share the benefits of efficiency gains with our Customers.

With no change in revenue, If CPI had been 1.5% and 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	6.40%	6.94%
75th percentile	5.48%	6.03%
Result if CPI was 1.5% and no discretionary discounts were paid to customers	5.43%	5.97%

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	$1,163k
Revenue from Miscellaneous fees	$ 17k
Total Permanent differences	$1,180k

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	$145k
Creditors	$92k
Total Temporary Timing Differences 31 March 2016	$237k
Wages Provisions	$166k
Creditors	$114k
Total Temporary Timing Differences 31 March 2017	$280k
Movement in Timing Differences	($43k)
Tax effect of timing difference	($12k)

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 assets was $8,003k which was $1,918k (32%) above the forecast of $6,085k set for the disclosure year (March 2017) due primarily to timing of construction on the Hangatiki to Te Awamutu 110kV line having been earlier delayed by landowner access negotiations. There was also more expenditure on consumer connection (+26% variance), system growth (+19%), asset replacement and renewal (+38%) and asset relocations (+115%).

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 2017).

Atypical Capital Expenditure

No atypical capital expenditure occurred during the disclosure year (March 2017).

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 $6,263k which was $120k (2%) above forecast of $6,143k set for the disclosure year (March 2017). Additional expenditure of $287k was incurred in the Service Interruptions and Emergencies category due to more faults than usual and above average reactive maintenance. None of the storms in the disclosure year qualified as exceptional weather events. Vegetation management was underspent by $130k; the budget was increased from $501k to $1,003k and field resources to complete the work were brought on later in the year and were unable to complete the full budgeted spend in the time available.

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 $595k exceeded the forecast of $403k by $192k (48%) for the disclosure year (March 2017). Asset replacement and renewal activity is driven by routine asset condition surveys and failures in service. Increased expenditure on transformers, voltage regulators, air break switches, ring main units and pillar boxes was a driver.

Reclassified Items

No items were reclassified during the disclosure year (March 2017).

Atypical Operational Expenditure

No atypical operational expenditure occurred during the during the disclosure year (March 2017).

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 $2,909k which was 26% above the forecast of $2,314k. Waipa Networks is experiencing higher demand for reticulation of subdivisions and new consumer connections.

System Growth: Expenditure was $516k which was 19% above the forecast of $432k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, switches and voltage regulators.

Asset Replacement and Renewal: Expenditure was $1,018k which was 38% above the forecast of $737k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, and switches.

Asset Relocation: Expenditure was $209k which exceeded forecast of $97k by $112k (115%) due to Local Council and NZTA road redevelopment and deviations.

Reliability, Safety and Environment (Quality of Supply): Expenditure was $2,998k which exceeded the forecast of $2,213k by $785k (35%) due primarily to timing of construction of the Hangatiki to Te Awamutu 110kV line delayed by landowner access negotiations.

Reliability, Safety and Environment (Other Reliability, Safety and Environment): Expenditure was $354k which exceeded the forecast of $292k by $62k (21%). This included replacing two pole substations, fusing spurs and services and undergrounding road crossings.

Expenditure on Non-Network Assets: Annual budget $97k, actual expenditure was $131k. A new vehicle was purchased ($57k) that had not been allowed for in the budget.

Operational Expenditure

Service Interruptions and Emergencies: Expenditure was $922k which exceeded the forecast of $635k by $287k (45%) due to more faults than usual and above average reactive maintenance.

Vegetation Management: Expenditure of $873k was below the forecast of $1,003k by $130k (13%) due to the time lag in implementing the resourcing increase required to meet the significantly increased budget (increased from $501k to $1,003k).

Routine and Corrective Maintenance and Inspection: Expenditure of $822k was below the forecast of $976k by $154k (16%) due to insufficient field resources to achieve an increased level of survey defect maintenance. The budget for survey defect maintenance was increased by $100k to attend to the current defect stock. However, the volume of customer connection work prevented this work being completed.

Asset Replacement and Renewal: Expenditure of $595k exceeded the forecast of $403k by $192k (48%) due to more maintenance on transformers, voltage regulators, air break switches, ring main units and pillar boxes.

Network Operational Expenditure: Expenditure was $3,212k which was 6% above forecast of $3,017k.

Non-Network Operational Expenditure: Expenditure was $3,051k which was 2% below forecast of $3,126k.

Overall Operational Expenditure was $6,263k which was within 2% of forecast of $6,143k.

No atypical capital or operational expenditure has been incurred during the disclosure year (March 17).

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 2017 was $27,021K as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2017 was $26,423K.

The variance between target revenue and total billed revenue for the year is (2.21)%.

The target revenue is pre posted discounts and includes charges to sub networks. Adjusted target revenue for 2017 was $24,843. The variance between the adjusted target revenue and total billed revenue for the year is 6.36%.

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:

Waipa Networks sets SAIDI and SAIFI envelope targets by using one standard deviation of the average of the last five years' actual performance, adjusted to target a gradual improvement.

Planned SAIFI for the network was 0.18 compared to AMP 2016 envelope target of 0.14.

Planned SAIDI for the network was 46.1 minutes compared to AMP 2016 envelope target of 35 minutes.

Unplanned SAIFI for the network was 2.09 compared to AMP 2016 envelope target of 2.15.

Unplanned SAIDI for the network was 158.1 minutes compared to AMP 2016 envelope target of 180.3 minutes.

Total Normalised SAIFI for the network was 1.86 compared to AMP 2016 envelope target of 2.29.

Total Normalised SAIDI for the network was 204.2 minutes compared to AMP 2016 envelope target of 215.3 minutes.

There were no exceptional weather events during the disclosure year (March 2017). However, there were two significant operational events contributing 45.4 SAIDI minutes. An insulator failure on a multi-circuit single pole structure caused a concurrent outage to the three feeders on that structure, resulting in an unplanned outage of 28.76 SAIDI minutes. A broken conductor on a long span of 11kV line over an estuary inlet on the Kawhia Rd contributed 13.66 SAIDI minutes, due to difficulty in locating and fixing the span in darkness.

Other major contributions to unplanned SAIDI were third party damage from car versus pole accidents, equipment failure (insulators, 11kV conductor and surge arrestors), and adverse weather. These had a significant adverse effect on unplanned SAIDI minutes during 2016/17.

Waipa Networks achieved two out of five reliability targets set in AMP 2016 for network reliability in the disclosure year, having not achieved the Faults per 100km lines (11kV) target.

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
No amendments to previously disclosed information.

Company Name: Waipa Networks Limited

For Year Ended: 31 March 2017

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	Waipa Networks Limited
For Year Ended	31 March 2017

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]