

Company Name	Waipa Networks Limited
For Year Ended	31 March 2018

## **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	\$814k
Revenue from Miscellaneous fees	\$ 10k
Total Permanent differences	\$824k

*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	\$166k
Creditors	\$114k
Total Temporary Timing Differences 31 March 2017	\$280k
Wages Provisions	\$195k
Creditors	\$142k
Total Temporary Timing Differences 31 March 2018	\$337k
Movement in Timing Differences	(\$56k)
Tax effect of timing difference	(\$16k)

*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 of related party transactions is disclosed in Schedule 5b.

Waikato Tree Services is a trading name of Waipa Networks Limited and Waipa Networks – Contracting is a trading department of Waipa Networks Limited.

*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 \$6,086k which was \$1,057k (15%) below the forecast of \$7,143k set for the disclosure year (March 2018). This was due to an underspend on system growth (deferral of a cable replacement project) and underspend on quality of supply (finding an alternative mitigation for risk and cancelling the undergrounding of an overhead multi-circuit line).

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 2018).

Atypical Capital Expenditure

No atypical capital expenditure occurred during the disclosure year (March 2018).

*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 \$6,550k which was \$137k (2%) above forecast of \$6,413k set for the disclosure year (March 2018). Additional expenditure of \$297k was incurred in the Service Interruptions and Emergencies category due to more faults than usual and above average reactive maintenance. The early January 2018 storm in the disclosure year qualified as an exceptional weather event, recording a Major Event Day for SAIDI. Routine and corrective maintenance and inspection was underspent by \$420k, resulting from defect maintenance not being completed due to high levels of customer connection work.

Asset Replacement and Renewal

This category involves the replacement and renewal of 11kV poles, cross arms, 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 \$517k exceeded the forecast of \$431k by \$86k (20%) for the disclosure year (March 2018). Asset replacement and renewal activity is driven by routine asset condition surveys and failures in service. Increased expenditure on reclosers and pillar boxes was a driver.

Reclassified Items

No items were reclassified during the disclosure year (March 2018).

Atypical Operational Expenditure

No atypical operational expenditure occurred during the during the disclosure year (March 2018).

*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 \$3,216k which was 21% above the forecast of \$2,662k. Waipa Networks is experiencing higher demand for reticulation of subdivisions and new consumer connections.

System Growth: Expenditure was \$627k which was 58% below the forecast of \$1,494k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, switches and voltage regulators. Projects to upgrade GXP cables and install new voltage regulators and capacitors were deferred due to a lack of resource.

Asset Replacement and Renewal: Expenditure was \$1,046k which was 93% above the forecast of \$542k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, and switches. Replacement of transformers and switches was a major contributor to the increased expenditure.

Asset Relocation: Expenditure was \$252k which exceeded forecast of \$97k by \$155k (160%) due to Local Council and NZTA road redevelopment and deviations. Notable was work required by NZTA due to installing roadside barriers along SH3 between Te Awamutu and Ohaupo.

Reliability, Safety and Environment (Quality of Supply): Expenditure was \$678k which was below the forecast of \$1,911k by \$1,233k (65%). This was largely due to a large project to install cables to replace a multi-circuit overhead line not proceeding. Following a review, the risk of multi-circuit failure has been mitigated via an annual acoustic monitoring survey. The project to install remote controlled switches in the network did not complete all the annual scope, contributing to the underspend.

Reliability, Safety and Environment (Other Reliability, Safety and Environment): Expenditure was \$267k which was below the forecast of \$437k by \$170k (39%). This included replacing two pole substations, fusing spurs and services and undergrounding road crossings.

Expenditure on Non-Network Assets: Annual budget \$110k, actual expenditure was \$217k. A new vehicle was purchased that had not been allowed for in the budget, and the exceedance is related to increased spending on vehicles.

Operational Expenditure

Service Interruptions and Emergencies: Expenditure was \$987k which exceeded the forecast of \$690k by \$297k (43%) due to increased expenditure on faults and above average reactive maintenance, including irrecoverable car accidents causing damage and response to major storms.

Vegetation Management: Expenditure of \$963k was below the forecast of \$1,003k by \$40k (4%) due a small shortfall in resources (unavailability of staff).

Routine and Corrective Maintenance and Inspection: Expenditure of \$572k was below the forecast of \$992k by \$420k (42%) 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. This was offset to a degree by increased expenditure on earth testing and other proactive maintenance.

Asset Replacement and Renewal: Expenditure of \$517k exceeded the forecast of \$431k by \$86k (20%) due to more maintenance on reclosers and pillar boxes.

Network Operational Expenditure: Expenditure was \$3,039k which was 2% below forecast of \$3,116k.

Non-Network Operational Expenditure: Expenditure was \$3,511k which was 6% above forecast of \$3,297k.

Overall Operational Expenditure was \$6,550k which was within 2% of forecast of \$6,413k.

No atypical capital or operational expenditure has been incurred during the disclosure year (March 18).

*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 2018 was \$29,556K as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2018 was \$26,994K.

The variance between target revenue and total billed revenue for the year is (8.67)%.

The target revenue is pre posted discounts and includes charges to sub networks. Adjusted target revenue for 2018 was \$25,856. The variance between the adjusted target revenue and total billed revenue for the year is 4.40%.

*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 2017 envelope target of 0.14.

Planned SAIDI for the network was 42.5 minutes compared to AMP 2017 envelope target of 35 minutes.

Unplanned SAIFI for the network was 1.62 compared to AMP 2016 envelope target of 2.15.

Unplanned SAIDI for the network was 174.8 minutes compared to AMP 2017 envelope target of 179 minutes.

Total Normalised SAIFI for the network was 1.81 compared to AMP 2017 envelope target of 2.28.

Total Normalised SAIDI for the network was 189.5 minutes compared to AMP 2017 envelope target of 214 minutes.

There was one exceptional weather event during the disclosure year (March 2018). A storm from 3 to 7 January 2018 that caused widespread outages due to "out-of-trimming zone" tree contacts and equipment failure due to high winds. This resulted in outages totalling 62.8 SAIDI minutes and 0.2 SAIFI before normalisation for a Major Event Day.

Major contributions to unplanned SAIDI were third party damage from car versus pole accidents, adverse weather, "out-of-trimming zone" tree contacts and equipment failure, in that order. These had a significant adverse effect on unplanned SAIDI minutes during 2017/18.

Waipa Networks achieved two out of five reliability targets set in AMP 2017 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 2018

## **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 2018</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]