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| Company Name | Waipa Networks Limited |
| For Year Ended | 31 March 2019 |

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;

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| Current year portion of the Third Party Contribution costs which are being amortised over 10 years | \$1,324k |
| Revenue from Miscellaneous fees | \$ 54k |
| Total Permanent differences | \$1,382k |

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.)

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|--|---------|
| Wages Provisions | \$195k |
| Creditors | \$142k |
| Total Temporary Timing Differences 31 March 2018 | \$337k |
| Wages Provisions | \$265k |
| Creditors | \$167k |
| Total Temporary Timing Differences 31 March 2019 | \$432k |
| Movement in Timing Differences | (\$95k) |
| Tax effect of timing difference | (\$26k) |

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

Waikato Tree Services is the trading name of a trading department of Waipa Networks, the principal activities are vegetation management. Expenditure of \$941k has been incurred by Waipa Networks with Waikato Tree Services for the 2019 disclosure year.

Waipa Networks – Contracting is a trading department of Waipa Networks, the principal activities are construction and maintenance of electrical networks. Expenditure of \$8,014k has been incurred by Waipa Networks with Waipa Networks – Contracting for the 2019 disclosure year.

Full information of related party transactions 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 Accounting-based allocation approach (ABAA). 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 Accounting-based allocation approach (ABAA). 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 \$6,052k which was \$2,175k (26%) below the forecast of \$8,227k set for the disclosure year (March 2019). This was due to an underspend on customer connection, system growth (deferral of a cable replacement project and voltage regulators) and underspend on quality of supply (reduce spend on remote controlled switches). Asset replacement and renewal was overspent compared to forecast due to higher renewal of transformers, switchgear and overhead lines.

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 2019).

Atypical Capital Expenditure

No atypical capital expenditure occurred during the disclosure year (March 2019).

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 \$8,007k which was \$707k (10%) above forecast of \$7,300k set for the disclosure year (March 2019). Additional expenditure of \$353k was incurred in the Service Interruptions and Emergencies category due to more faults than usual and above average reactive maintenance, in particular irrecoverable car accidents. Asset replacement and renewal was overspent by \$146k, resulting from increased spending on transformer, recloser and pillar box maintenance.

Non-network operational expenditure was above forecast by 255k, this was due to higher expenditure on SCADA and switching, staff costs in Network Planning and consultants.

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 \$680k exceeded the forecast of \$534k by \$146k (27%) for the disclosure year (March 2019). Asset replacement and renewal activity is driven by routine asset condition surveys and failures in service. Increased expenditure on transformers, reclosers and pillar boxes was a driver.

Reclassified Items

No items were reclassified during the disclosure year (March 2019).

Atypical Operational Expenditure

No atypical operational expenditure occurred during the during the disclosure year (March 2019).

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 \$3,317k which was 14% below the forecast of \$3,866k. The budget was increased from 2018 because Waipa Networks is experiencing higher demand for reticulation of subdivisions and new consumer connections. Less was spent on network extensions and transformer additions than expected.

System Growth: Expenditure was \$222k which was 86% below the forecast of \$1,642k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses and switches. Projects to upgrade GXP cables and install new voltage regulators and capacitors were deferred due to a lack of resource. Less was spent on transformer enhancements, communications and SCADA than budgeted.

Asset Replacement and Renewal: Expenditure was \$1,239k which was 108% above the forecast of \$597k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, and switches. Replacement of transformers, fuses, reclosers, ring main units and switches was a major contributor to the increased expenditure.

Asset Relocation: Expenditure was \$190k which exceeded forecast of \$97k by \$93k (96%) due to Local Council and NZTA road redevelopment and deviations.

Reliability, Safety and Environment (Quality of Supply): Expenditure was \$857k which was below the forecast of \$1,506k by \$649k (43%). The project to install remote controlled switches in the network did not complete the majority of the annual scope, contributing to the underspend. A project to install a new cable to improve reliability to line-end feeder sections required less expenditure than budgeted.

Reliability, Safety and Environment (Other Reliability, Safety and Environment): Expenditure was \$227k which was below the forecast of \$519k by \$292k (56%). This included replacing two pole substations, fusing spurs and services and undergrounding road crossings. The under expenditure was because the programme of replacing two pole substations was not completed due to focus on customer connection work and defect maintenance.

Expenditure on Non-Network Assets: Annual budget \$105k, actual expenditure was \$313k (198%). Three new vehicles were purchased, the budget only allowed for one vehicle (\$150k versus budget of \$50k). Tools expenditure of \$78k exceeded budget of \$5k, due to one-off expenditure on GPS data loggers for line design and a protection relay test set.

Operational Expenditure

Service Interruptions and Emergencies: Expenditure was \$1,043k which exceeded the forecast of \$690k by \$353k (51%) due to increased expenditure on faults and above average reactive maintenance, including irrecoverable car accidents causing damage.

Vegetation Management: Expenditure of \$941k was below the forecast of \$1,003k by \$62k (6%) due a small shortfall in resources (unavailability of staff).

Routine and Corrective Maintenance and Inspection: Expenditure of \$1,097k was above the forecast of \$1,082k by \$15k (1%) due to increased earth testing and repairs and proactive 11kV maintenance.

Asset Replacement and Renewal: Expenditure of \$680k exceeded the forecast of \$534k by \$146k (27%) due to more maintenance on transformers, reclosers and pillar boxes.

Network Operational Expenditure: Expenditure was \$3,761k which was 14% above forecast of \$3,309k.

Non-Network Operational Expenditure: Expenditure was \$4,257k which was 7% above forecast of \$3,991k.

Overall Operational Expenditure was \$8,018k which was 10% ahead of forecast of \$7,300k.

No atypical capital or operational expenditure has been incurred during the disclosure year (March 19).

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 2019 was \$29,609K as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2019 was \$26,744K.

The variance between target revenue and total billed revenue for the year is (9.68)%.

The target revenue is pre posted discounts and includes charges to sub networks. Adjusted target revenue for 2019 was \$25,459. The variance between the adjusted target revenue and total billed revenue for the year is 5.05%.

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 0.21 compared to AMP 2018 envelope target of 0.16.

Planned SAIDI for the network was 53.2 minutes compared to AMP 2018 envelope target of 40 minutes.

Unplanned SAIFI for the network was 1.17 compared to AMP 2018 envelope target of 2.11.

Unplanned SAIDI for the network was 115.0 minutes compared to AMP 2018 envelope target of 173 minutes.

Total Normalised SAIFI for the network was 1.38 compared to AMP 2018 envelope target of 2.27.

Total Normalised SAIDI for the network was 168.2 minutes compared to AMP 2018 envelope target of 213 minutes.

High levels of planned SAIFI and SAIDI for the network reflect planned shutdowns for repairing defects, especially in the suburb of Leamington where higher than normal numbers of ICPs were affected by individual planned outages. Customer connection work is also at high volumes, which contributes to planned SAIFI and SAIDI.

There was no exceptional weather event during the disclosure year (March 2019).

Major contributions to unplanned SAIDI were third party damage (mainly from car versus pole accidents), equipment failure and adverse weather in that order. These had a significant adverse effect on unplanned SAIDI minutes during 2018/19.

Waipa Networks achieved three out of five reliability targets set in AMP 2018 for network reliability in the disclosure year, having 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.

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| Company Name | Waipa Networks Limited |
| For Year Ended | 31 March 2019 |

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.

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| Company Name | Waipa Networks Limited |
| For Year Ended | 31 March 2019 |

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

The SAIFI disclosed in Schedule 10 has been prepared on a basis consistent with the 2018 disclosure.

Where an interruption to the supply of a customer is followed by restoration and then by a “successive interruption” to the same customer the relevant SAIFI value is based on a single outage, not based on the multiple outages.

Waipa Networks sets 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 0.21 compared to AMP 2018 envelope target of 0.16.

Unplanned SAIFI for the network was 1.17 compared to AMP 2018 envelope target of 2.11.