

Company Name	<u>Waipa Networks Limited</u>
For Year Ended	<u>31 March 2021</u>

## **Schedule 14      Mandatory Explanatory Notes**

*(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Electricity Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)*

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 11 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.

Lost and found asset adjustment

Information disclosure reporting requirements specify third party capital contributions are excluded from the cost of RAB assets. During the preparation of the ID schedules for 2021, we identified that an incorrect amount of third party capital contributions had been deducted from RAB assets in the prior year, resulting in understatement of asset values for the year ended 31 March 2020.

We have been able to isolate the affected population and quantify the impact to a total \$471k understatement of RAB asset value for the year ended 31 March 2020.

In preparing the schedules for 2021, the correct asset value has been restored through the Lost and found asset adjustment. This is the preferred method of correction, as does not impact the Regulatory P&L or the 2021 ROI calculation.

*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**

Income not included in regulatory profit/(loss) before tax but taxable as disclosed in 5a(i) is as follows;

Current year portion of the Third Party Contribution costs which are being amortised over 10 years	\$2,600k
Revenue from Miscellaneous fees	\$ 77k
Total Permanent differences	\$2,677k

*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 other temporary difference as disclosed in 5a(vi) is as follows;

Wages Provisions	\$194k
Creditors	\$71k
Provision for doubtful debts	<u>\$85k</u>
Total Temporary Timing Differences 31 March 2020	\$350k
Wages Provisions	\$259k
Creditors	\$107k
Provision for doubtful debts	<u>\$356k</u>
Total Temporary Timing Differences 31 March 2021	\$721k
Movement in Timing Differences	\$371k
Tax effect of timing difference	\$104k

*Cost allocation (Schedule 5d)*

10. 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 7: Cost allocation**

Waipa Networks Limited allocates costs between its EDB and non-EDB services. Non-electricity distribution services include the cost to Waipa Networks Limited of providing contracting services and tree services. These non-EDB operations are wholly controlled by Waipa Networks Limited and are therefore considered related parties when preparing these information disclosures.

- Waipa Networks Contracting is a trading department of Waipa Networks Limited. The principal activities are construction and maintenance of electrical networks.
- Waikato Tree Services is the trading name of another trading department of Waipa Networks Limited whose principal activity is vegetation management.

Operating costs are allocated to the Electricity Distribution business using the Accounting-based allocation approach (ABAA). The Proxy used for the basis of allocation is relevant to the time employees spent on activities in EDB versus non-EDB services, or in the case of property costs, area occupied by those business support services. There were no reclassified items during the year.

*Asset allocation (Schedule 5e)*

11. 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 8: Commentary on asset allocation**

Land and buildings assets are assets shared by Waipa Networks Limited's EDB and non-EDB operations. Asset values are allocated based on a proxy relationship (area occupied by EDB versus non-EDB operations).

*Capital Expenditure for the Disclosure Year (Schedule 6a)*

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

**Box 9: Explanation of capital expenditure for the disclosure year**

Capital Expenditure

Capital Expenditure on network assets was \$9.7m. \$4.5m of this was funded from third party capital contributions.

Non-network capital expenditure was \$1.9m and includes software development, see Atypical capital expenditure below.

Works under construction across both network and non-network assets has increased by \$1.2m since last year.

Related Parties

Across network and non-network assets, \$4.7m of the capital expenditure was from a related party (Schedule 5b). As described in Box 7, Waipa Networks Limited has its own Contracting services that deliver asset construction services for the EDB.

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 2021).

Atypical Capital Expenditure

Capital expenditure on non-network assets includes \$656k related to software development for IT foundations which occurred during the disclosure year (March 2021). The balance is included in Work in Progress at 31 March 2021.

*Operational Expenditure for the Disclosure Year (Schedule 6b)*

13. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-
  - 13.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b;
  - 13.2 Information on reclassified items in accordance with subclause 2.7.1(2);
  - 13.3 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 10: Explanation of operational expenditure for the disclosure year**

Operational Expenditure

Overall Operational Expenditure was \$9.2m.

Reclassified Items

No items were reclassified during the disclosure year.

Atypical Operational Expenditure

A change in the method of calculating bad debt provision increased non-network operational expenditure by \$270k.

Related parties

\$4.3m of expenditure was from a related party (Schedule 5b). As described in Box 7, Waipa Networks Limited has its own Contracting and Tree services that deliver operating services for the EDB.

*Variance between forecast and actual expenditure (Schedule 7)*

14. 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 11: Explanatory comment on variance in actual to forecast expenditure

### Capital Expenditure

Capital Expenditure on network assets was \$9.7m which was \$4m (29%) below the forecast of \$13.6m set for the disclosure year.

Consumer Connections: Expenditure was \$3,098k which was 17% below the forecast of \$3,738k. While transformer expenditure was ahead of budget, general extensions to the network was behind budget, attributed to reduced customer connection activity during the COVID lockdown.

System Growth: Expenditure was \$2,526k which was 19% below the forecast of \$3,138k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses and switches. Expenditure was below budget due to consenting delays in a generator installation to support GXP capacity in Cambridge. Projects to upgrade GXP cables and install new voltage regulators and capacitors were deferred due to design delays and a lack of resource.

Asset Replacement and Renewal: Expenditure was \$3,061k which was 33% below the forecast of \$4,541k. Expenditure covered a range of asset classes including distribution and LV circuits, transformers, fuses, and switches. Replacement of transformers, fuses, ring main units and switches were a major contributor to expenditure. An atypical replacement was the replacement of the Te Awamutu ripple plant control converter.

Asset Relocation: Expenditure was \$69k which was below forecast of \$178k by 61% due to Local Council and NZTA road redevelopment and deviations.

Reliability, Safety and Environment (Quality of Supply): Expenditure was \$109k which was 93% below the forecast of \$1,474. The project to install remote controlled switches in the network did not complete the majority of the annual scope due to lack of resources, contributing to the underspend. A project to install an alternative supply to the Te Awamutu ripple control plant was delayed.

Reliability, Safety and Environment (Other Reliability, Safety and Environment): Expenditure was \$802k which was 36% above the forecast of \$588k. This included replacing two pole substations, fusing spurs and services and undergrounding road crossings. The programme of replacing two pole substations was not completed due to focus on customer connection work and defect maintenance, but this was compensated by expenditure on road crossings.

Non-network capital expenditure was \$1.9m, \$2.5m under the forecast of \$4.5m as software asset upgrades were partially deferred until the following regulatory period. Capital expenditure on non-network assets includes \$656k related to software development for IT foundations which occurred during the disclosure year (March 2021). The balance is included in Work in Progress at 31 March 2021.

### Operational Expenditure

Overall Operational Expenditure was \$9.3m which was \$423k (4%) below forecast of \$9.7m

set for the disclosure year.

Service Interruptions and Emergencies: Expenditure was \$1,451k which was 45% above the forecast of \$1,003k due a change in the method of calculating bad debt provision for irrecoverable car accidents causing damage. This was not included in the forecast. Recognition of bad debts related to historical accidents contributed to the overspend.

Vegetation Management: Expenditure of \$1,013k was 4% below the forecast of \$1,060k due a small shortfall in resources (unavailability of staff).

Routine and Corrective Maintenance and Inspection: Expenditure of \$966k was 35% below the forecast of \$1,478k due to under delivery of defect maintenance and earth testing and repairs, due to resources allocated to other work.

Asset Replacement and Renewal: Expenditure of \$579k was 7% below the forecast of \$621k due to less maintenance on transformers and pillar boxes.

Non-network operational expenditure was below forecast by \$270k or -5%.

*Information relating to revenues and quantities for the disclosure year*

15. In the box below provide-

15.1 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

15.2 explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue.

**Box 12: Explanatory comment relating to revenue for the disclosure year**

Target revenue for 2021 was \$31.5m as disclosed in Schedule 7 (Comparison of Forecasts to Actual Expenditure). The total billed line charge revenue for 2021 was \$26.8m.

The variance between target revenue and total billed revenue for the year is (15)%.

The target revenue is pre posted discounts and includes charges to sub networks.

*Network Reliability for the Disclosure Year (Schedule 10)*

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



**Box 13: Commentary on network reliability for the disclosure year**

Total SAIDI minutes for 2021 was 257 minutes, above the SCI target of 244 minutes (105% of target). Planned shutdowns accounted for 118 SAIDI minutes, well above the AMP target of 80 SAIDI minutes (148% of target). This is attributed to a significant number and above average scoped shutdowns associated with the Waikeria Project that involved outages for reconfiguring overhead lines and connecting in new feeder assets for the Waikeria Prison expansion. Continued shutdowns for network renewal to eliminate defects also contributed to this high level of planned shutdowns. Unplanned shutdowns totalled 139 SAIDI minutes, which is lower than average due to less storm conditions and adverse weather over the year.

Total SAIFI for 2021 was 1.73, 65% of the SCI target of 2.68. Planned SAIFI was 0.36, 113% of the SCI target of 0.32. This reflects the significant amount of planned work undertaken on the network as described above. Unplanned SAIFI was 1.36, lower than average due to the more favourable weather conditions over the year.

*Insurance cover*

17. In the box below, provide details of any insurance cover for the assets used to provide electricity distribution services, including-
  - 17.1 The EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;
  - 17.2 In respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

**Box 14: 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*

18. 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:
  - 18.1 a description of each error; and
  - 18.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

**Box 15: Disclosure of amendment to previously disclosed information**

During the year we identified an error related to previously disclosed information. We have not amended the previously disclosed information and have instead corrected the item through the current year disclosure information. Further detail is provided in Box 4, Lost and found adjustment.

Company Name Waipa Networks Limited  
For Year Ended 31 March 2021

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

*(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018.)*

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, 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, 2% p.a..

Company Name Waipa Networks Limited

For Year Ended 31 March 2021

## **Schedule 15 Voluntary Explanatory Notes**

*(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018.)*

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**

#### Basis of preparation for interruptions – S10 Reliability

The SAIFI disclosed in Schedule 10 has been prepared on the following basis, that is consistent with the previous disclosure year:

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 the actual number of multiple outages, not based on a single outage.

#### Lost and found asset adjustment – S4.RAB Value (Rolled Forward)

Information disclosure reporting requirements specify third party capital contributions are excluded from the cost of RAB assets. During the preparation of the ID schedules for 2021, we identified that an incorrect amount of third party capital contributions had been deducted from RAB assets in the prior year, resulting in understatement of asset values for the year ended 31 March 2020.

We have been able to isolate the affected population and quantify the impact to a total \$471k understatement of RAB asset value for the year ended 31 March 2020.

In preparing the schedules for 2021, the correct asset value has been restored through the Lost and found asset adjustment. This is the preferred method of correction, as does not impact the Regulatory P&L or the 2021 ROI calculation.