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| Company Name | <u>Westpower Limited</u> |
| For Year Ended | <u>31 March 2015</u> |

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

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 2.5.2.
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 clause 2.7.1(2).

Box 1: Explanatory comment on return on investment

No reclassifications have occurred.

Westpower is not required to complete monthly ROI information under clause 2.3.3.

The decrease in the ROI compared to 2014 is due the decrease in the CPI revaluation movement as well as an increase in operational expenditure as a result of Cyclone ITA.

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 regulatory line income’ other than gains and losses on asset sales, as disclosed in 3(i) of Schedule 3
 - 5.2 information on reclassified items in accordance with clause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

Other income includes rental and lease income from network assets.

No reclassifications have occurred.

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 clause 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
No merger or acquisition expenditure has been incurred.

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 clause 2.7.1(2).

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)
No reclassification of items has occurred.

There have been no changes in depreciation profiles.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the following items, as recorded in the asterisked categories in 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
Other temporary differences relate to network asset disposals which were not claimed for income tax purposes. For tax purposes the company continues to depreciate these assets until the end of their useful lives.

Temporary differences are also recognised in relation to accrued employee entitlements and provision for doubtful debts.

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

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

Box 6: Temporary differences / Tax effect of other temporary differences (current disclosure year)

Other temporary differences relate to network asset disposals where are not claimed for income tax purposes. For tax purposes the company continues to depreciate these assets until the end of their useful lives.

Temporary differences are also recognised in relation to accrued employee entitlements and provision for doubtful debts.

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 clause 2.3.6(1)(b).

Box 7: Related party transactions

Operating Expenditure

Electrical contracting services are charged on a time and materials basis and include direct labour costs, materials, subcontractor costs and vehicle usage plus mark up.

Asset management and business support services include direct labour costs plus mark up.

Capital Expenditure

Electrical contracting services are charged on a time and materials basis and include direct labour costs, materials, subcontractor costs and vehicle usage excluding mark up.

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 clause 2.7.1(2).

Box 8: Cost allocation

No cost allocation is required as all costs are directly attributable to the electricity distribution business. No changes have occurred in the company's cost allocation approach.

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 clause 2.7.1(2).

Box 9: Commentary on asset allocation

No asset allocation is required as all assets are directly attributable to the electricity distribution business. No change has occurred in the company's asset allocation approach.

Capital Expenditure for the Disclosure Year (Schedule 6a)

13. In the box below, comment on capital expenditure 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 clause 2.7.1(2),

Box 10: Explanation of capital expenditure for the disclosure year

A materiality threshold of \$50,000 has been applied to identify material projects and programmes.

No reclassification of items has occurred.

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 operating expenditure, as reported in 6b(i) of Schedule 6b;
 - 14.2 information on reclassified items in accordance with clause 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

Asset replacement and renewal expenditure includes:

- replacement of lightning arrestors, fuses, earths and cross arms at pole mounted transformer sites.
- replacement of pillar boxes and bare LV neutrals.
- refurbishment and maintenance of zone substations and switchgear including deployment of mobile substation.

No material atypical expenditure or reclassification of items has occurred.

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 clause 2.7.1(2).

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

Capital Expenditure

System Growth

The decreased expenditure is due to the reduced transformers purchases as a result of reduced consumer demand.

Reliability Safety and Environment

Expenditure includes the Mt Boner Comms Site Upgrade which was not included in the AMP but was subject to separate Board approval. This project was partially funded by capital contribution. This expenditure was offset by a project which did not commence due to access and design constraints associated with the location along with underspending on a number of small projects.

Note: Actual expenditure is net of the adjustment to remove related party margin while the target figures are gross before any adjustment.

Operational Expenditure

Service Interruptions and Emergencies

The additional faults expenditure is due primarily to the impact of Cyclone Ita in April 2015.

Vegetation Management

The additional vegetation expenditure is due to additional works needed to address vegetation issues which arose during the year following faults or risk assessments.

Routine and Corrective Maintenance and Inspection

A general improvement in the condition of lines assets has resulted in lower than expected number of defects identified during condition assessment inspections and reduced expenditure. Other contingent expenditure including river protection works and weed spraying of access tracks was not required.

Information relating to revenue 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 clauses 2.4.1 and 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

See Schedule 7. There was no material difference between target and actual line charge revenue.

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

Network reliability measures are primarily affected by weather and environmental factors including vegetation. In terms of outages, 2015 was affected significantly by the impact of Cyclone Ita in April 2014.

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

The cost of insuring all network assets is considered prohibitive. Replacement cover is held for all substation assets.

Company Name Westpower Limited

For Year Ended 31 March 2015

Schedule 14a Mandatory Explanatory Notes on Forecast Information

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule provides for EDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
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 disclosure year, as disclosed in Schedule 11a.

Box 1: Commentary on difference between nominal and constant price capital expenditure forecasts
A CPI movement of 3.5% p.a. has been added to capital expenditure forecasts.

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 disclosure year, as disclosed in Schedule 11b.

Box 2: Commentary on difference between nominal and constant price operational expenditure forecasts
A CPI movement of 2.7% p.a. has been applied to network operational expenditure forecasts. A CPI movement of 2-2.5% has been applied to non network operational expenditure.

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Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule enable 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, 2.5.2, and 2.6.5;
 - 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