

Company Name	Westpower Limited
For Year Ended	31 March 2016

## **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**

No reclassifications have occurred.

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

The increase in the ROI compared to 2015 is due to the increase in the CPI revaluation movement as well as the decrease in operational expenditure following the 2014 Cyclone ITA costs.

### *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**

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 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**

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 subclause 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 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**

The permanent differences relate to legal expenses associated with capital expenditure.

*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)**

The tax effect of 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.

*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 sub 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 subclause 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 subclause 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 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**

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 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, 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 (opex) includes:

- Replacement of lightning arrestors, fuses, earths and cross arms at pole mounted transformer sites.
- Condemned cross arm replacement.
- Refurbishment and maintenance of zone substations 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 subclause 2.7.1(2).

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

**Capital Expenditure**

**Consumer Connections**

The addition expenditure was due to the connection of an embedded generator which was funded by a capital contribution.

**System Growth**

System growth expenditure includes to the purchase of new transformers or increases in transformer capacity. This expenditure is driven by customer requirements. During the year there were two significant and unexpected jobs requiring an increase in transformer capacity.

**Asset Replacement and Renewal**

A major 33kV line replacement did not proceed due to delays in gaining an easement. This work was to upgrade the conductor size to reduce ongoing losses. The existing line continues to operate safely with the project due to be completed during 2016/17.

The budget also included costs associated with the decommissioning of the line into the Pike mine site and the Pike and Logburn substations. The decommissioning of these assets was only partially completed during 2015/16. The costs incurred have been included in Loss on Disposal.

**Reliability Safety and Environment**

As a number of these projects were investigated, better and more cost effective solutions were identified including adoption of new technologies. Some expenditure was delayed due to resource consent and weather factors.

**Operational Expenditure**

**Routine and Corrective Maintenance**

A number of budgeted items were not required eg maintenance of river protection works (due to settled weather conditions) and maintenance of access tracks. Cost savings were also achieved on the condition assessment programme and distribution substation inspections due to the adoption of new technologies and improved processes. Upon inspection some assets were found to be in a better condition than anticipated reducing the required maintenance.

**Asset Replacement and Renewal Expenditure (Opex)**

As Westpower's maintenance policies continue to improve the overall condition of the network assets, we are seeing an ongoing trend of reduced operational replacement and

renewal expenditure.

### **System Operations and Network Support**

This variance is due to reduced expenditure on development of network standards, ISO55000 accreditation and software support and updates. Continuing development of networks standards has been able to be carried out internally. In terms of ISO55000, it was determined that Westpower had already obtained many of the benefit of implement ISO processes without incurring the high cost of external certification.

### **Business Support**

The variance is due to Pass Through costs included in forecast Business Support costs.

### *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**

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**

In terms of outages, the 2016 SAIDI result reflects a 'normal' year when compared to 2015 in which Cyclone Ita dramatically affected the result.

*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.

*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 have been made to previously disclosed information in accordance is clause 2.12.1.



Company Name	Westpower Limited
For Year Ended	31 March 2016

### **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**  
A CPI movement of 2% 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 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**  
A CPI movement of 2% p.a. has been applied to network operational expenditure forecasts.  
A CPI movement of 1-2% has been applied to non network operational expenditure.

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For Year Ended	<u>31 March 2016</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**