

Company Name	<u>Westpower Limited</u>
For Year Ended	<u>31 March 2020</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 increase in ROI is due to impact of the increase in the CPI revaluation on regulatory profit.

No reclassifications have occurred.

Westpower is not required to complete the monthly ROI information under 2.3.3

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

As noted above the increase in regulatory profit is due to the impact of the CPI revaluation.

Other Income includes rental and lease income from network assets, HVDC recoveries from local generators, loss and constraint income from Transpower and other consumer recoveries.

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

No permanent tax difference occurred in 2020.

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 temporary differences relate to network asset disposals, accrued employee entitlements and provision for doubtful debts.

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

Proxy allocators have been applied to the allocation of Network and Business Support cost. These costs have been allocated between EDB and non EDB activities based on staff time and the allocation of staff resources between these activities. We believe this is representative of the underlying causal factors such as transaction volumes, complexity of financial and regulatory reporting, and the governance and asset management oversight required.

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

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)

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

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)

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

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 and replacement of bare LV neutrals.
- Refurbishment and maintenance of zone substations including deployment of mobile substation.

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

Customer Connections

The increase from the budgeted expenditure is driven by the additional complexity from new customer connections in the area.

Asset Replacement and Renewal

Variance from budget was driven by the deferral of decommissioning costs of asset associated with the Pike River Mine.

Reliability, Safety and Environment – Quality

The deferral of some key projects such as the Advanced Distribution Management System contributed largely to the underspend.

Operational Expenditure

Service Interruptions and emergencies

Favourable weather conditions have kept this cost below the budgeted spend.

System Operations and Network Support

The increased expenditure is due to additional IT costs and legal costs associated with consultation on the Regional Policy Statement.

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

There was not material difference between target and actual line charge revenue.

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

Exempted (see Schedule 15).

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

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

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

No amendments have been made to previously disclosed information in accordance with clause 2.12.1.

Company Name Westpower Limited

For Year Ended 31 March 2020

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

Interruptions

The information for this year's information disclosure has been prepared on a basis consistent with the previous year's disclosure.

Where an interruption to the supply of electricity distribution services is followed by restoration, and then by a successive interruption, Westpower's policy is to calculate the relevant SAIFI values based upon multiple outages, except for the case where there is a very short successive interruption due to fault sectionalising. For instance, in the normal course of locating a high-voltage network fault, a feeder circuit breaker may trip again (following the initial fault tripping event) when a section of faulted line undergoes trial reconnection to the network as part of the restoration switching program. If this happens, as soon as the field operator completes the operation and reports back to the system controller, they are immediately asked to carry out the reverse operation to isolate the faulted line section, allowing the feeder circuit breaker to be closed again. This would normally be completed within a period of no more than 3 minutes. So, apart from this very particular circumstance, successive interruptions are recognised in accordance with the ID determination.

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Return on Investment (Schedule 2)

7. 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 increase in ROI is due to impact of the increase in the CPI revaluation on regulatory profit.

No reclassifications have occurred.

Westpower is not required to complete the monthly ROI information under 2.3.3

Regulatory Profit (Schedule 3)

8. In the box below, comment on regulatory profit for the disclosure year as disclosed in Schedule 3. This comment must include-
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Other Income includes rental and lease income from network assets, HVDC recoveries from local generators, loss and constraint income from Transpower and other consumer recoveries.

Merger and acquisition expenses (3(iv) of Schedule 3)

9. If the EDB incurred merger and acquisitions expenditure during the disclosure year, provide the following information in the box below-
- 9.1 information on reclassified items in accordance with subclause 2.7.1(2)
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Company Name Westpower Limited
For Year Ended 31 March 2020

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