

Company Name Nelson Electricity Limited

For Year Ended 31 March 2019

## **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 2.5.1(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**

1. NEL achieved a post-tax ROI of 6.43% and an ROI comparable to the vanilla WACC of 6.94% for 2019.
2. Schedule 2 (iii) has not been completed as total assets commissioned for 2019 of \$1,659k is less than 10% of opening RAB value. (IDD 2.3.3)
3. No items were reclassified.

### *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 operating surplus for 2019 of \$4.446m is 5.0% down on the 2018 year of \$4.682m predominantly due to lower revenue as a result of the settlement agreement with the Commerce Commission following the 2017 price path breach being remediated this year as well as bringing the Default Price Path – Pass Through balance close to \$0.

The overall Regulatory profit after tax for 2019 of \$2.747m is \$0.051m down on the 2018 year of \$2.798m as higher revaluation gains on the Regulatory Asset Base have partly offset the lower revenue.

No items have been reclassified in the disclosure 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**

No costs incurred 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 total closing RAB value for 2019 of \$41.934m includes assets commissioned in 2019 of \$1.659m.

Total depreciation for 2019 of \$1.447m.

No items have been reclassified in the disclosure 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 Nil
- 8.2 Non-deductible expenditure below \$500 and does not show when rounded to thousands
- 8.3 Nil
- 8.4 Nil

*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 temporary differences (provision for employee entitlements) is \$2,000.

*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**

Nelson Electricity has no business outside of its Electricity Distribution Service.

No items have been reclassified this 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**

Nelson Electricity has no business outside of its Electricity Distribution Service.

No items have been reclassified this year.

*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**

The materiality threshold was any project that was greater than \$500k in value. There were no projects in the year that met the threshold.

No items have been reclassified this year.

*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 operating expenditure includes a proportion of the cost to replace smaller assets such as 400V service and link boxes where the expenditure is considered more operational in nature.

No items have been reclassified this year.

There was no material atypical expenditure.

*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**

Expenditure on assets

Capital expenditure for the year due was 12% above target as some projects that were delayed last year were completed this year.

Operational expenditure

Operating expenditure was \$6k (0.3%) above target largely, with the major overspend in the routine and corrective maintenance category.

No items have been reclassified this year.

*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**

Revenue was 1% higher than target. The main contributing factor was the electricity consumption being 1.7% greater than forecast.

*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**

Unadjusted SAIDI in 2019 was 24.3 minutes, of which 16.8 minutes was a result of planned outages and 7.6 minutes was unplanned.

The normalised result, once the 50% adjustment to planned outages is made is 15.2 minutes, below regulatory SAIDI limit of 22.2 minutes.

Normalised SAIFI in 2019 was 0.10, in line with the last two years results of 0.09 (2018) and 0.10 (2017).

*Insurance cover. In the box below, provide details of any insurance cover for the assets used to provide electricity distribution services, including-*

- 16.1 The EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;
- 16.2 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**

Insurance cover has been maintained across all aspects of the business.

The property insurance programme does not include cover transmission and distribution lines. In the prevailing insurance market conditions coverage for transmission and distribution lines is difficult to obtain, or very expensive.

*Amendments to previously disclosed information*

17. 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:
- 17.1 a description of each error; and

17.2 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.

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## **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**

Given the low level of inflation and interest rates, the difference between nominal and constant was assessed at 1% for the 2018/19 – 2023/24 years and 2% for every year thereafter for the planning period.

*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**

Given the low level of inflation and interest rates, the difference between nominal and constant was assessed at 2% per year for the planning period.



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## 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**

**Loss Rental Rebates**

Transpower Loss rental rebates totalling \$143k have not been included in schedule 3 Regulatory Profit.

**Schedule 10 SAIFI Assessment**

Nelson Electricity recently was made aware that the SAIFI assessments as included in Schedule 10 have not been prepared in accordance with the methodology as defined in the Electricity Distribution Information Disclosure Determination 2012. Nelson Electricity has used a single count of interruption for ICP's even if there are multiple interruptions within an outage event. Nelson Electricity has undertaken a review of the last two years and identified only one instance on 11 November 2018 where a generator was connected to 1 ICP, when the outage data used detailed only one outage instead of two for the connection and disconnection of the generator. This issue for the 2019 year is not material as this represented an under reporting of Class B SAIFI by 0.0001 .