

Company Name	<u>Nelson Electricity Limited</u>
For Year Ended	<u>31 March 2023</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

1. NEL achieved a post-tax ROI of 9.04% and an ROI comparable to the vanilla WACC of 9.55% for 2023. The vanilla WACC ROI compares to the regulatory price path WACC of 4.57%. The ROI is high as a result of the 6.65% CPI recorded for the year which creates a significant revaluation gain.
2. Schedule 2 (iii) has not been completed as total assets commissioned for 2023 of \$1.644m 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 2023 of \$3.403m is \$0.032m (1.0%) up on the 2022 year of \$3.371m.

The overall Regulatory profit after tax for 2023 of \$4.217m is \$0.100m (2.4%) up on the 2022 year of \$4.117m.

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 2023 of \$49.284m includes assets commissioned in 2023 of \$1.644m and a revaluation increase of \$3.079m.

Total depreciation for 2023 of \$1.699m.

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 Nil

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 \$6,000.

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 was 21% below target primarily as a result of major projects being delayed to co-ordinate with local council works.

Operational expenditure

Operating expenditure was 1% above target. NEL had more unplanned outages on its distribution network than usual, which resulted in service interruptions and emergency expenditure to be \$124k over target.

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% below target. The main contributing factor was the electricity consumption being below 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 2023 was 62.5 minutes, of which 42.1 minutes were related to planned outages and 20.4 minutes were unplanned outages on the network during the year.

The normalised result, once the 50% adjustment to planned outages is made as per Electricity Distribution Services Default Price-Quality Path Determination 2020 - Schedule 3.1, clause (2) and two unplanned major events are normalised to their boundary value is 29.4 minutes.

Normalised SAIFI in 2023 was 0.22, below last year's result of 0.27.

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

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

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.

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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 increase to inflation in 2023, the difference between nominal and constant was assessed at 5% for the 2024 year and the 2025 year prior to stabilising at 2.0% 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 increase to inflation in 2023, the difference between nominal and constant was assessed at 5% for the 2025 year prior to stabilising at 2.0% for every year thereafter 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.)

5. This schedule enables EDBs to provide, should they wish to-
 - 5.1 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;
 - 5.2 information on any substantial changes to information disclosed in relation to a prior disclosure year, as a result of final wash-ups.
6. 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.
7. Provide additional explanatory comment in the box below.

Box 1: Voluntary explanatory comment on disclosed information

Loss Rental Rebates

Transpower Loss rental rebates totalling \$507k have not been included in schedule 3 Regulatory Profit.

Schedule 10 SAIFI Assessment

Nelson Electricity has historically 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 five 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 was not material as this represented an under reporting of Class B SAIFI by 0.0001.

For the 2023 year, Nelson Electricity has not had any successive interruptions and therefore there is no impact on reported SAIFI.