

Company Name	Nelson Electricity Limited
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For Year Ended	31 March 2014
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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

NEL achieved a post tax WACC of 7.02% and a vanilla WACC of 7.70%.

Return on investment, post tax WACC of 7.02% and a vanilla WACC of 7.70%, is lower than that of 2013 (8.61% and 9.38% respectively) due to commissioning of a major capital project to the value of circa \$12.0m. Closing RIV increased to \$41.6m in 2014 from \$29.9m in 2013. Comparable operating surplus dropped \$0.3m in 2014 to \$4.4m.

Schedule 2(iii) has been completed due to the commissioning of the \$12.0m major capital project in March 2014.

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 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

The operating surplus for 2014 of \$4.30m is \$0.30m down on the 2013 year of \$4.73m predominantly due to higher recoverable costs for 2014.

The overall Regulatory profit after tax for 2014 of \$2.790m is marginally up on last year due to an increased revaluation for 2014 and a reduced regulatory tax allowance from the correct treatment of the revaluation amount for regulatory tax purposes.

Other regulated income includes;

- Building lease \$7k
- Sales of scrap \$2k
- Exchange gains \$42k

Last year (2013) other regulated income incorrectly included loss rental rebates of \$0.298m.

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 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 costs 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)

The total closing RAB value for 2014 of \$42.2m includes assets commissioned for 2014 of \$12.56m being the completion of a major capital development installing a new 33kV feeder line and replacing the Haven Road zone substation. This project was commissioned in March 2014.

No items have been reclassified

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

8.1 Nil

8.2 Increase in annual leave provision of \$5k

8.3 Total revaluation of assets \$465k

*Not adjusted for in the 2013 disclosures was RAB Revaluation of \$255
This had an affect of increasing regulatory taxable income and regulatory tax allowance.
Adjusted correctly would have increased regulatory profit after tax by \$71

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 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)

*Increase in annual leave provision \$1k (\$5k from box 5 times 0.28 tax rate)

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

Business Support

NEL has a FTE staff of 4. Financial, administrative, operational and engineering support is provided by shareholders whom have knowledge of the business and provide economies of scale. Fees charged for this business support have been determined on an arms length basis and have been certified accordingly.

Capex

Fees charged for engineering consulting required by the major capital project have been determined on an arms length basis and have been certified accordingly.

Directors Fees

Fees paid have been determined by benchmarking with other similar businesses.

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 items have been reclassified

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 items have been reclassified

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

Material Projects

Assets commissioned for 2014 of \$12.56m being the completion of a major capital development installing a new 33kV feeder line and replacing the Haven Road zone substation. This project was commissioned in March 2014.

No items have been reclassified in accordance with clause 2.7.1(2)

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

There were a number of 400V service and link boxes replaced during the year. 40% of the total replacement cost has been assessed as operating expenditure as there was a significant proportion of the total cost to excavate and remove the old equipment.

No items have been reclassified in accordance with clause 2.7.1(2)

There was a large increase in routine and corrective maintenance and inspection expenditure of \$480k to expedite the addressing of protecting vulnerable cables on the network. Most of the cost of this work was forecasted to be capital in nature but retained and not replaced the work was operational.

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

Capex

System Growth - The expenditure on the two significant projects of the year being new 33kV Feeder and new zone substation increased due to actual costs exceeding forecast levels.

Asset Replacement – The expenditure allocated to address vulnerable cables was underspent as this cost ended up being operational in nature.

Opex

The increased expenditure to address vulnerable cables was included as this cost ended up being operational in nature. This increased expenditure by \$480k.

A low number of network outages meant service interruptions and emergencies was lower than forecast

No items have been reclassified in accordance with clause 2.7.1(2)

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

Revenue was down on forecast by \$345k. The main contributing factors were:

- The annual consumption for the year was down 0.6GWh or 0.5% to 142GWh.
- The continuing number of residential consumers switching over to the Low Fixed charge option.
- Larger consumers rationalising their connected capacity.

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 was lower than forecasts for SAIDI and SAIFI. Fault rate statistics are typically highly variable given the low length of lines and the effect a small number of faults can have on these.

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

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

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



Company Name	<u>Nelson Electricity Limited</u>
For Year Ended	<u>31 March 2014</u>

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
 Given the uncertainty of inflation, the difference between nominal and constant was assessed at 1% for the 2014/15 year and 2% compounding 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 disclosure year, as disclosed in Schedule 11b.

Box 2: Commentary on difference between nominal and constant price operational expenditure forecasts
 Given the uncertainty of inflation, the difference between nominal and constant was assessed at 2% for the 2014/15 year and 2% compounding for every year thereafter for the planning period.



Company Name Nelson Electricity Limited

For Year Ended 31 March 2014

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

Per #325 of the ComCom IDD Issues Register. The amount of AC Loss Rental Rebates received by NEL for 2014 was \$180k. This amount has not been included as regulatory income.