

Company Name	<u>Nelson Electricity Limited</u>
For Year Ended	<u>31 March 2016</u>

## **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**

1. NEL achieved a post tax WACC of 6.37% and a vanilla WACC of 7.02% for 2016.
2. Schedule 2 (iii) has not been completed as total assets commissioned for 2016 of \$581k amounted to 1.39% 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 2016 of \$4.890m is \$0.101m up on the 2015 year of \$4.789m predominantly due to reduced operational expenditure for 2016.

The overall Regulatory profit after tax for 2016 of \$2.811m is \$0.266m up on the 2015 year predominantly due to revaluations for 2016 of \$244k compared to the previous year of \$35k.

Other material regulated income includes the following item;

- Building lease \$6k

No items have been reclassified in the disclosure year in accordance with subclause 2.7.1(2).

*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 for 2016.

*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 2016 of \$41.115m includes assets commissioned for 2016 of \$0.581m.

Total depreciation for 2016 of \$1.379m.

No items have been reclassified in the disclosure year in accordance with subclause 2.7.1(2).

*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 below \$500 and does not show when rounded to \$000's

*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 subclause 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 arm's 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 subclause 2.7.1(2).

**Box 8: Cost allocation**

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

*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 items have been reclassified in accordance with subclause 2.7.1(2)

*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**

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 in accordance with subclause 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 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, 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 subclause 2.7.1(2)

There was no material atypical expenditure

*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**

**Capex**

A reassessment of planned capital expenditure for the year due to the 0% growth forecast meant that a number of growth and replacement/renewal related projects were deferred or abandoned. This resulted in a saving of \$137k for growth related and \$216k for replacement/renewal expenditure.

**Opex**

Less assets requiring expenditure resulting from the asset auditing regime has resulted in a reduction in asset renewal/replacement expenditure of \$260k for 2016.

Lower than forecasted service interruptions and emergencies has resulted in a reduction in expenditure of \$63k for 2016.

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

*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**

Revenue was in line with target being \$50k greater than forecast or 0.5%. The main contributing factor was the electricity consumption being 0.5% greater than forecast due to a cooler winter and warmer summer seasons.

*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 were considerably lower than forecasts for both 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.

The SAIDI was 11 minutes compared to a forecast of 45 minutes. SAIFI was 0.22 compared to a forecast of 0.90.

*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.

*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.

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### **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**  
Given the low level of inflation and interest rates, the difference between nominal and constant was assessed at 1% for the 2016/17 – 2022/23 years and 1.5% 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 1% for the 2016/17 – 2022/23 years and 1.5% for every year thereafter for the planning period.



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### **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**

Transpower Loss rental rebates totalling \$176k have not been included in schedule 3 Regulatory Profit.