

Company Name	<u>EA Networks</u>
For Year Ended	<u>31 March 2021</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

Commentary on ROI

During the year EA Networks found an error in its price setting compliance statement, which had resulted in an over recovery of revenue. The over recovery of revenue (\$3.47M) was return to consumers during the year as a posted discount. The posted discount did not meet the requirements of limb (c) of clause 3.1.1(11) of the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (as amended). As a result, the \$3.47M has not been included as part of line charge revenue. If the over recovery of revenue had been included as part of line charges EA Networks ROI – comparable to a post-tax WACC would have been 3.13%.

ROI reflecting all revenue earned has decreased from 6.47% in 2020 to 4.40% in 2021. This decrease is expected due to two main reasons:

1. Lower asset revaluation (2.53% 2020) - (1.52% 2021).
2. A decrease in line revenue because of the prices set under DPP 3 regulations - which resulted in lower allowable revenue and as a result lower actual revenue.

Information on reclassified items in accordance with subclause 2.7.1(2)

There has been no re-classification of items in the disclosure year.

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

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

Two key items make up other regulatory income (New connections fees \$175K) and loss on sale of asset (\$860k). Additional information concerning when new connection fees are charged can be found in EA Networks new connection and extension policy downloadable from:

<https://www.eanetworks.co.nz/assets/PDFs/Disclosures/Regulatory/Other/e7d903803e/New-Connections-Extensions-PolicyEA-v2.pdf>

Row 103 of schedule 4(vii): Disclosure by Asset Category gives additional details of the types of assets which were scrapped or sold during the year.

5.2 information on reclassified items in accordance with subclause 2.7.1(2)

No items have been reclassified in accordance with subclause 2.91.(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 Merger and acquisition expenses

No merger or acquisition occurred in the reporting period.

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

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)

All assets commissioned, decommissioned and depreciated in the year have followed the requirements of the determination.

ABAA has resulted in \$0.006M of 'non-network assets not directly attributable' being transferred from unallocated RAB to RAB. The closing difference between RAB and unallocated RAB is \$2.322M.

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

Income not included in regulatory profit / (loss) before tax but taxable	\$000's
Capital Contributions amortisation	110
Total	110

Expenditure or loss in regulatory profit / (loss) before tax but not deductible	\$000's
Annual leave movement	16
Non-deductible entertainment	5
Total	21

Income included in regulatory profit / (loss) before tax but not taxable	\$000's
Regulatory gains / (losses) on asset disposals (row 10 schedule 3.1)	(860)
Total	(860)

Expenditure or loss deductible but not in regulatory profit / (loss) before tax	\$000's
Regulatory tax gain / (losses) on assets disposals	252
Total	252

Prior to 2014 EA Networks accounted for capital contributions using the 10 year amortisation method for tax. From 2014 capital contributions have been offset against network assets for tax purposes. The \$110k represents amortisation of capital contributions paid prior to the start of 2014 year

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)

	<u>2020</u>	<u>2021</u>
Employee entitlements	306	324
Provision for ACC	2	-
	<hr/>	<hr/>
	308	324
Less 2020		308
Movement		<hr/>
		16

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

ABAA (accounting-based allocation approach) has been applied to allocate not directly attributable costs in the disclosure year in accordance with the IM determination.

Proxy cost allocators have been used due to no direct relationship between not directly attributable business support operating costs and the way costs are incurred.

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

ABAA (accounting-based allocation approach) has been applied to allocate not directly attributable costs for the first time in the disclosure year in accordance with the IM determination.

Proxy cost allocators have been used due to no direct relationship between not directly attributable non-network assets and the way in which the asset is employed by EA Networks.

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

Section 12.1 Materiality Threshold

Projects individually reported in the 2020 AMP are reported on.

Section 12.2 Reclassified items

There has been no re-classification of items in the disclosure 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

Commentary on assets replacement or renewal reported in 6b(i) of Schedule 6b

Asset replacement and renewal expenditure was employed on the following items.

Asset replacement and renewal	\$000
Distribution switchgear	192
Other network asset	19
Overhead	780
Subtransmission	106
Transformers and Substation	199
Underground	90
Zone substation	164
Total	1,550

Network opex is managed together collectively. Total network opex costs incurred in the year match's target.

Information on reclassified items in accordance with subclause 2.7.1(2)

ABAA (accounting-based allocation approach) has been applied to allocate indirectly attributable costs. The impact of the ABAA is defined in other boxes within schedule 14.

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.

There was no atypical expenditure in operational expenditure for the year.

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

In line with the determination, expenditure types are compared to the AMP forecast. When an expenditure type variance is greater than 10% comment is made.

Expenditure on Assets**Asset replacement and renewal**

Actual asset replacement and renewal CAPEX was 34% lower than the forecast. This is primarily due to delays in project completion as a result of the COVID-19 pandemic.

Quality of Supply

Actual CAPEX on quality of supply was 60% lower than the forecast. This is primarily due to a delay in the planned programme for the year due to the COVID-19 pandemic and resourcing issues. The forecast also included expenditure for the SCADA – Distribution Automation Project which should have been included as system growth.

Other reliability, safety and environment

The actual CAPEX was 12% higher than the forecast. The main reason for the higher spend in the current year is that 2 large projects (PDS Zone Substation and UG Conversion) from 2020 was carried forward and only completed in 2021 increasing the actual expenditure for the year.

Expenditure on non-network assets

Actual CAPEX on non-network assets was 52% lower than forecast. The main reason for the variance is that three key projects were not undertaken in the years. Vehicle replacement project assumed a change in the replacement cycle of vehicles would occur, this change did not occur. GIS development project was deferred allowing resources to be reallocated to the distribution management project. A timing issues around the payment for software associated with the distribution management project. Lower spend on software development because of COVID-19.

Operational Expenditure**Expenditure on network opex**

Items making up network opex are managed collectively as a single operating cost. The overall actual opex was materially in line with the forecast.

Subcomponents of Expenditure on Assets (where known)**Energy efficiency and demand side management, reduction of energy losses.**

No expenditure occurred in the year due to the project being deferred.

Overhead to underground conversion.

Actual costs were 50% lower than planned. Two key factors resulted in the lower than planned investment: the Rakaia west project was deferred due to access issues and Waka Kotahi funding constraints results in the undergrounding of the state highway project being cancelled.

Research and development

The amount allowed for under this heading was a provision which was only to be sent if project was identified, only a limited number of projects were identified.

Insurance

The amount of insurance cover and associated cost was higher than planned.

Information on reclassified items in accordance with subclause 2.7.1(2)

No items have been reclassified in accordance with subclause 2.6.1(2).

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

Line revenue was 2% above target, mainly due to DPP3 coming into effect for the disclosure year ended 31 March 2021.

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:

Network reliability is compliant with quality requirements under the default price-quality path, however there are inherent limitations in the ability of EA Networks to collect and record the network reliability information required to be disclosed in Schedule 10(i) to 10(iv). Consequently there is no independent evidence available to support the accuracy of recorded faults and control over the accuracy of installation control point ('ICP') data included in the SAIDI and SAIFI calculations is limited throughout the year.

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

Question 17.1 level of insurance

Where it is economically sensible to insure assets EA Networks has insurance in place. In practice this means that most items outside of substation fencing will not be insured.

Question 17.2 levels of reserves

EA Networks holds no insurance reserves.

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 material errors have been identified.

Company Name EA Networks

For Year Ended 31 March 2021

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

The difference is 0.0% for the 2021-22 year. Costs have been prepared using 2021-22 values for labour, plant, and materials. Years after 2021-22 have been escalated by the “Half Year Economic and Fiscal Update 2020” CPI Forecast by the New Zealand Government Treasury published in December 2020. When the forecast ends, the final year CPI value has been used until the period end.

(<https://www.treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2020>)

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

The difference is 0.0% for the 2021-22 year. Costs have been prepared using 2021-22 values for labour, plant, and materials. Years after 2021-22 have been escalated by the “Half Year Economic and Fiscal Update 2020” CPI Forecast by the New Zealand Government Treasury published in December 2020. When the forecast ends, the final year CPI value has been used until the period end.

(<https://www.treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2020>).

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For Year Ended	<u>31 March 2021</u>

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

Exemption related to Schedule 10 - Network reliability and note on director certification

On 17 May 2021, the Commission Commerce released a document:

To: All suppliers of electricity distribution services as regulated under Part 4 of the Commerce Act 1986: titled, Information Disclosure exemption: Disclosure and auditing of reliability information within Schedule 10.

The Commission granted all EDBs an exemption for the 2021 disclosure year, subject to the condition at paragraph 7 of the letter, from:

- the requirement that the assurance report required to be procured by clause 2.8.1(1) of the ID determination in respect of the information in Schedule 10 of the ID determination must take into account any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions.

The Directors of Electricity Ashburton Limited note that they have not been provided a comparable exemption from:

- the requirement that the certificate required by clause 2.9.2 of the ID determination in respect of clause 2.5.1(1)(f), the information in Schedule 10 of the ID determination, must take into account any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions.

The Directors of Electricity Ashburton Limited certify that:

Electricity Ashburton Limited has continued to treat successive interruptions in the same way for the 2021 disclosure year as they were for the 2019 disclosure year.