

| | |
|----------------|---------------|
| Company Name | EA Networks |
| For Year Ended | 31 March 2020 |

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 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

EA Networks ROI 6.47% is above the mid-point estimate of Vanilla WACC of 4.69%. The prime reason that EA Networks is above the mid-point is CPI of 2.5% in the year compared to the prior year of 1.48%. After the adjusting for the difference EA Networks return on investment is in line with the last two prior year.

4 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

There is no material items.

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

There has been no re-classification of items 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 subclaus 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

There has been no merger or acquisition occurred in the reporting period.

There has been 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 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 \$0.654M of 'non-network assets not directly attributable' being transferred from unallocated RAB to RAB. The closing difference between RAB and unallocated RAB is \$1.470M.

During the year EA Networks transitioned to NZIFRS 16 resulting in \$10.8M being recorded in RAB. We have claimed \$335K of depreciation for the associated assets. Last year we claimed \$803K as an operating expense for the assets which are now financial lease assets.

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 Income not included in regulatory profit / (loss) before tax but taxable | \$'000 |
|---|---------------|
| Capital Contributions | 188 |
| Total | 188 |

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 \$188k represents amortisation of capital contributions paid prior to the start of 2014 year.

| 8.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible | \$'000 |
|--|---------------|
| Gains / (losses) on asset disposals (as per schedule 3.1) | 1,094 |

| 8.3 Income included in regulatory profit / (loss) before tax but not taxable | \$'000 |
|---|---------------|
| Movement in holiday pay and ACC accruals | 21 |

| 8.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax | \$'000 |
|--|---------------|
| Lease payments | 822 |
| Tax loss on assets sold | 367 |
| Total | 1,189 |

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>2019</u> | <u>2020</u> |
|-----------------------|-------------|-------------|
| Employee entitlements | 286 | 306 |
| Provision for ACC | 1 | 2 |
| | <hr/> | <hr/> |
| | 287 | 308 |
| Less 2019 | | 287 |
| Movement | | <hr/> |
| | | 21 |

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

EA Networks is a co-operative company who has regular related party transactions with its shareholders which may include the purchase of and sale of goods and services, all of which are carried out at market value.

Work undertaken by EA Networks Field Services for the EDB is carried out at cost with no profit being created as the result of the transaction.

EA Networks own a fibre network, part of which is rented by the power network on the same commercial terms and conditions as it offers third parties.

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 2.3.6(1)(b).

Box 8: 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)

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

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 use.

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

Section 13.1 Materiality Threshold

A three-step principle based test is used to define materiality associated with schedule 6a.

1) The risk associated with the project in question: projects with notable risk are detailed in the schedule.

2) Projects which require notable financial investment are detailed individually. Currently notable financial investment is defined as above \$100k.

3) Projects individually reported in the 2019 AMP are reported on.

Section 13.2 Reclassified items

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

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

Commentary on assets replaced or renewed reported in 6b(i) of Schedule 6b

| Asset replacement and Renewal | |
|--------------------------------------|---------|
| Allocated into categories | \$000's |
| Distribution Substation | 330 |
| Overhead | 905 |
| Transformers | 0 |
| Underground | 178 |
| Zone Substation | 95 |
| | 1,508 |

Service interruptions and emergencies; vegetation management; routine and corrective maintenance and inspections and assets replacement and renewal are managed at the global level. For the year ended 31 March 2020 network operating costs were 30% higher than forecasted, due to increase expenditure on inspections.

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

There has been no-reclassification in accordance with subclause 2.7.1(2)

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)

15. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. 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**7(ii): Expenditure on assets**

The Commerce Commission has issued direction that the value of intangible assets created because of transition to NZIFRS16 are to be included 7(ii) actuals. When the AMP was approved no allowance was made for the treatment of financial assets because of transition to NZIFRS16, due to no guidance note, at the time, being issued by the Commerce Commission. Removing intangible assets recognised on NZIFRS 16 adoption, actual expenditure on assets for the year is:

| 7(ii): Expenditure on Assets | Target (\$000) | Actual (\$000) | Variance (\$000) | % Variance |
|---|-----------------------|-----------------------|-------------------------|-------------------|
| Expenditure on assets as per disclosure | 22,175 | 29,436 | 7,261 | 33% |
| <i>Less NZIFRS transition</i> | - | <i>(10,820)</i> | <i>10,820</i> | |
| Actual expenditure on assets for the year | 22,175 | 18,616 | (3,559) | (16%) |

Notes on subcategories of 7(ii): expenditure on assets

| Consumer Connection | Target (\$000) | Actual (\$000) | Variance (\$000) | % Variance |
|--|-----------------------|-----------------------|-------------------------|-------------------|
| Urban | 327 | 335 | 8 | 2% |
| Safety related (no new ICP created) | 684 | 152 | (532) | (78%) |
| Capacity alteration (no new ICP created) | 276 | 191 | (85) | (31%) |
| Rural LV | 321 | 185 | (136) | (42%) |
| Rural Transformer | 1,566 | 593 | (973) | (62%) |
| Other | 418 | 568 | 150 | 36% |
| | 3,592 | 2,024 | (1,568) | (44%) |

Notes on consumer connection variances.

Estimated customer connection expenditure for the AMP was set using historical trends and other information which EA Networks was aware of. Several factors beyond EA Networks control affect the actual number of and amount spent on new connections. For example, milk prices and access to water which impacts rural connections.

| Reliability, safety and environment (other reliability) | Target (\$000) | Actual (\$000) | Variance (\$000) | % Variance |
|--|-----------------------|-----------------------|-------------------------|-------------------|
| Distribution Earthing upgrade | 389 | 490 | 101 | 26% |
| UG Conversion - State Hwy Road Crossing | 92 | 382 | 290 | 315% |
| All other projects | 172 | 207 | 35 | 21% |
| | 653 | 1,079 | 426 | 65% |

Notes on reliability, safety and environment (other reliability) variance.

Distribution earthing upgrade: Reflects earthing projects carried forward from the prior years

UG Conversion – State Hwy Road Crossing: A provision was made in the AMP for road coasting which is spent as required. The large investment reflects a catch-up from prior periods.

All other projects: reflects carried forward from last year caught up with.

| Reliability, safety and environment (quality of supply) | <i>Target (\$000)</i> | <i>Actual (\$000)</i> | <i>Variance (\$000)</i> | <i>% Variance</i> |
|--|-----------------------|-----------------------|-------------------------|-------------------|
| SCADA - Distribution Automation Program | 289 | 117 | (172) | (59%) |
| Rural Ring Main Unit Installations | 1,001 | 1,238 | 237 | 24% |
| 11kV Core Network Centres | 658 | 89 | (569) | (87%) |
| Distribution Transformers | 1,035 | 0 | (1,035) | (100%) |
| ZZS - Upgrading 110v DC Supplies | 97 | 57 | (40) | (42%) |
| All other projects | 276 | 154 | (122) | (44%) |
| | 3,356 | 1,655 | (1,701) | (51%) |

Notes on reliability, safety, and environment (quality of supply) variance

SCADA – Distribution Automation Program: deferred due to resourcing.

Rural Ring Main unit installation: reflects project costs carried from prior years.

11kV Core Network centers: deferred to future years, currently reevaluating the project.

Distribution transformers: Transformers booked straight onto conversion projects.

ZZS-Upgrading 110c DXC supplies: partly deferred to next year.

All other projects: reflects projects carried forward from prior years.

| Expenditure on non-network assets | <i>Target (\$000)</i> | <i>Actual (\$000)</i> | <i>Variance (\$000)</i> | <i>% Variance</i> |
|---|-----------------------|-----------------------|-------------------------|-------------------|
| Routine expenditure | | | | |
| Routine Vehicles | 183 | 188 | 5 | 2% |
| Software - GIS Development | 53 | - | (53) | (100%) |
| ZZS ASH building improvement | 104 | - | (104) | (100%) |
| Routine Info Tech | 647 | 97 | (550) | (85%) |
| Financial Lease | - | 102 | (102) | - |
| All other projects | 10 | 165 | 155 | 1551% |
| | 997 | 552 | (445) | (45%) |
| Atypical expenditure | | | | |
| DMR repeater stations | 163 | 45 | (118) | (73%) |
| Software distribution management system | 411 | 521 | 110 | 27% |
| All other projects | 58 | 47 | (11) | (19%) |
| Lease recognised under NZIFRS16 | - | 10,820 | 10,820 | 0% |
| | 632 | 11,433 | 10,801 | 1709% |
| Total as per schedule 7(ii): Expenditure on Assets | 1,629 | 11,985 | 10,356 | 636% |
| Less | | | | |
| Lease recognised under NZIFRS16 | 0 | (10,820) | 10,820 | 0% |
| Adjusted capital investment made in the year | 1,629 | 1,165 | (464) | (28%) |

Notes on expenditure on non-network assets Variances

Routine expenditure

Software – GIS Development: A provision which was not used was made in the AMP.

ZZS ASH Building improvement: this project was cancelled.

[2018-2019] Software – Payroll management and DRP development. Focus has been on embedding the software installed last year over development.

[2018-2019] Software – Distribution Management System. Timing issue associated with payment of software.

[2018-2019] Website Development. Chose a lower cost development plan than was allowed for in the budget.

[2018-2019] balance of projects. Delayed to next year, due to resources issues.

Financial lease. When the AMP was set the financial lease was not allowed for.

A-typical expenditure

DMR repeater station. The project was carried over from the prior year.

Software distribution management system: This is a multiyear project. The higher than planned cost reflect a difference in payments made compared to budgeted payments.

7(iii): Operational Expenditure

Network opex. All the items that make up network opex are managed as one. Over all the costs are in line with target.

System operations and network support.

Reflects lower than planned use of consultants.

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

There has been no-reclassification in accordance with subclause 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

- Line revenue for the year was within 3% of the target.
- There are no material differences between targeted revenue and total billed line charge revenue.

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 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

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**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

Rather than holding insurance reserves EA Networks has identified the highest risk associated with the network is adverse weather conditions. To minimise this risk EA is undergrounding its networks when it is economically sensible to do so.

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 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 material errors have been identified.

Company Name EA Networks
For Year Ended 31 March 2020

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 2020-21 year. Costs have been prepared using 2020-21 values for labour, plant and materials. Years after 2020-21 have been escalated by the "Half Year Economic and Fiscal Update 2019" CPI Forecast by the New Zealand Government Treasury published in December 2019. When the forecast ends, the final year CPI value has been used until the period end.

<https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2019-html>

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 2020-21 year. Costs have been prepared using 2020-21 values for labour, plant and materials. Years after 2020-21 have been escalated by the "Half Year Economic and Fiscal Update 2019" CPI Forecast by the New Zealand Government Treasury published in December 2019. When the forecast ends, the final year CPI value has been used until the period end.

<https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2019-html>

| | |
|----------------|----------------------|
| Company Name | <u>EA Networks</u> |
| For Year Ended | <u>31 March 2020</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

On 22nd August 2019 the Commerce Commission published a guideline "Information Disclosure exemption: Disclosure of reliability information within Schedule 10 of the 2019 EDB Information Disclosure Requirements Information Templates for Schedules 1-10.", this guideline removes the requirement for:

- the information in Schedule 10 of the Disclosure Requirement to be included within the Audited disclosed information under Clause 1.4.3 and from the definition of interruption specified within Clause 1.4.3 of the ID Determination as it applies to the calculation of SAIFI and SAIDI, and the recording of the Number of Interruptions under Schedule 10 – Report on Network Reliability.
- Disclosing information required under Paragraph 16 of the Schedule 14 – Mandatory Explanatory Notes

The exemption is granted on the condition that:

- EDBs submit information calculated on a basis that is consistent with the basis undertaken in preparing the 2018 disclosure year.
- EDBs add a note to Schedule 15, this schedule, disclosing:
 - Whether the information has been prepared on a basis consistent with the previous year's disclosure, if not, the reason for, and nature of, the change in the calculation.
EA Networks response: *The information contained in Schedule 10 has been disclosed using a consistent approach to prepare the data as in prior years.*
 - The process applied in recognising, or not recognising, successive interruptions following an initial outage.
EA Networks response: *The NOC becomes aware of an outage either from SCADA, Retailer (phone or email) or phone call from a customer. The time of these notifications is taken as the start time for the interruption. When responding to outages for larger areas, restoration is commonly done in stages to connect customers as quickly as possible. This is done by patrolling a section of line up to a switching device, opening it to isolate the unpatrolled section of line beyond and then livening up to the device. This restores supply to the customers fed from the section of line that has been patrolled. This sequence is then followed until the cause of the interruption is identified or in the case of Unknow faults, all the line has been patrolled. This creates a situation where a wider area fault will have one off time, but several restore times for the customers affected by the initial fault. There may at times be a situation where the cause of the fault was not spotted by patrolling e.g. underground cable fault, and the line is inadvertently closed back on to the fault. The result of this is customers that have already had their power restored from the initial fault lose power again. This is captured as a one fault event as the cause of the initial fault has yet to be identified when this happens.*
- Comment on network reliability for the disclosure year.
EA Networks response:
 - SAIFI and SAIDI for the year did not breach the requirements of the quality path.
 - Class C interruptions and Duration by cause:
 - Defective equipment. The main defective equipment causes the outages are cable terminations and broken insulators. We have not been able to identify any obvious patterns or connections between outages.
 - Adverse environment. We have not been able to identify any obvious patterns or connections between outages.
 - Cause unknown. The Unknown Interruptions are almost exclusively blown fuse events with most noting that no cause was found.
 - Network reliability is compliant with quality requirements under the default price-quality path.

