

Company Name	Alpine Energy
For Year Ended	31 March 2017

## **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**

Our 2017 ROI-comparable to a post-tax WACC is 7.12%, an increase from 4.92% last year. Our resulting ROI is approximately 0.07 percentage points below the WACC rate used to set regulatory price path of 7.19%.

The result is as expected given that we have had a smaller increase in the value of the RAB compared to last 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**

Our regulated income for 2017 is \$54m which is an increase of \$2m compared to regulated income for 2016.

Other regulated income is sundry revenue of \$12k, \$9k lower than the amount received in 2016. As reported in previous years we consider this to be part of regulated revenues (other than line charge revenues and disposed assets).

No items were reclassified.

*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**

Not applicable as we did not merge with nor acquire another regulated business.

*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)**

Our RAB increased in value from \$167m to \$179m during the disclosure year.

For 2017 we had more additions than we had in 2016 (i.e., \$19m in 2017 compared to \$12m in 2016)

Major projects for the year included the installation of four new cable circuits from the Timaru GXP to the centre of the Washdyke industrial area.

Assets disposed were \$306k. For 2017 we used a 5-year average to estimate our disposals. This is because the data in the asset system has not been updated while we implemented our new asset management system TechOne. Disposals at 0.17% of the value of the RAB are not considered to be material.

No items were reclassified.

*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: nil
- Expenditure or loss in regulatory profit / (loss) before tax but not deductible:
  - Non-deductible Consultancy Fees \$14,787
  - Non- deductible Entertainment \$12,378
  - Non-deductible GST on Entertainment \$890
  - Non-deductible Legal Fees \$24,227
- Income included in regulatory profit / (loss) before tax but not taxable:
  - Revaluation of Investment Property – Land Portion \$385,618
- Expenditure or loss deductible but not in regulatory profit / (loss) before tax: 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)**

- Closing 2017 temporary differences comprise:
  - Employee entitlements \$179,608
  - ACC \$4,931
  - Sponsorship \$13,544
- Opening 2016 temporary differences comprise:
  - Employee entitlements \$155,813
  - ACC \$15,120
  - Sponsorship \$18,672

*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**

Netcon Limited is our wholly owned subsidiary. Netcon offers a wide range of professional services to us, other electricity distribution companies, and to large and small consumers. Professional services over the year have included but are not limited to:

- line construction
- technical services
- land development
- asset management
- substation and distribution
- industrial electrical

All our related party costs are directly attributable to the related service.

Infratec is a wholly own subsidiary of NETcon. Infratec traditionally engages in offshore development work such as network upgrades in the Cook Islands. Infratec is also currently managing our mobile battery storage trial under a service level agreement with negotiated commercial terms.

*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**

All of our corporate costs for this period can be directly attributable to the regulated service.

This year we were below the 20% unregulated/regulated revenue threshold and accordingly our not directly attributable costs are applied in totality to the regulated service.

Being under the threshold allows us to allocate all *not directly attributable* costs to the regulated service.

No items were 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 subclause 2.7.1(2).

**Box 9: Commentary on asset allocation**

We have classified all of our assets as being directly attributable to the provision of electricity distribution, therefore 100% of the asset values are allocated as directly attributable.

No items were reclassified.

*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**

Capital expenditure for this period was \$20.9m compared to \$15.2m during 2016.

We do not apply a materiality threshold to identify material CAPEX projects and programmes. All of our CAPEX spend is given a project number within our accounting system Nimbus against which forecast expenditure and actual expenditure is set. The materiality of our CAPEX projects is based on impact of the project on the network, resource availability, etc. not a monetary threshold.

No items have been reclassified during the period.

*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**

Opex for 2017 is \$14.6m, which is very close to the opex spend in 2016 of \$14.7m.

- **service interruptions and emergencies** \$1.6m
- **vegetation management** \$726k
- **routine and corrective maintenance and inspection** \$4.2m
- **asset replacement and renewal** \$181k
- **non-network** \$7.9m

No items have been reclassified this period.

No material atypical expenditure occurred during this period.

*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****Revenue**

Our actual revenue at \$54.4m was \$2.9m (or 5%) less than our target revenue of \$57.3m. This result was predominately due to a wetter than average summer materially decreasing the energy usage by irrigators in the ASSHCA load group.

**Capital Expenditure**

The forecast values reported in Schedule 7 are based on the Forecast in Schedule 11a of our Asset Management Plan-2017 to 2027.

**Figure 1: Variance between the forecast CAPEX and actual CAPEX**

<b>7(ii): Expenditure on Assets</b>	<b>Forecast (\$000) <sup>2</sup></b>	<b>Actual (\$000)</b>	<b>% variance</b>
Consumer connection	2,850	4,401	54%
System growth	6,582	4,490	(32%)
Asset replacement and renewal	7,141	9,209	29%
Asset relocations	430	59	(86%)
Reliability, safety and environment:			
Quality of supply	840	469	(44%)
Legislative and regulatory	–	–	–
Other reliability, safety and environment	730	1,306	79%
<b>Total reliability, safety and environment</b>	<b>1,570</b>	<b>1,774</b>	<b>13%</b>
<b>Expenditure on network assets</b>	<b>18,573</b>	<b>19,934</b>	<b>7%</b>
Expenditure on non-network assets	5,244	3,934	(25%)
<b>Expenditure on assets</b>	<b>23,817</b>	<b>23,868</b>	<b>0%</b>

The variance on Expenditure on network assets is 7% (\$1.4m) and the variance on Expenditure on assets is 0% (\$51k). Both variances are well within the materiality thresholds.

However, there are material variances within the expenditure categories. This shows that while overall expenditure is well within expectations, expenditure has moved between the categories as we adapt to the changing priorities throughout the period.

**Figure 2: Variance in OPEX spending**

<b>7(iii): Operational Expenditure</b>	<b>Forecast (\$000)</b>	<b>Actual (\$000)</b>	<b>% variance</b>
Service interruptions and emergencies	1,383	1,631	18%
Vegetation management	524	726	39%
Routine and corrective maintenance and inspection	3,081	4,165	35%
Asset replacement and renewal	360	181	(50%)
<b>Network opex</b>	<b>5,348</b>	<b>6,703</b>	<b>25%</b>
System operations and network support	(1,540)	2,448	(259%)
Business support	9,938	5,418	(45%)
<b>Non-network opex</b>	<b>8,398</b>	<b>7,866</b>	<b>(6%)</b>
<b>Operational expenditure</b>	<b>13,746</b>	<b>14,569</b>	<b>6%</b>

We were overall 6% above forecasted spending which is within the materiality thresholds. Again, the expenditure has moved between the categories due to change of priorities



throughout the disclosure year.

The negative forecast for *System operations and network support* is due to change in approach to recovery of labour costs between the various teams following a material restructuring of the Network Department in 2017.

There were no re-classified items for either OPEX or CAPEX

*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**

Actual line charge revenue 2% above budget due to organic growth across the network.

*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**

Our SAIDI performance (class B + class C) was 169.43 SAIDI minutes (no change after normalisation), which exceeded our target of 154.16 SAIDI minutes by 15.27 SAIDI minutes.

It is important to note that:

- (i) exceeding the target does not amount to a breach of the SAIDI limit under Default Price Quality Path (DPP)
- (ii) the normalisation methodology used here is as per the Input Methodologies and is inconsistent with the methodology employed in DPP.

Our SAIFI performance (class B + class C) was 1.30 SAIFI interruptions with no change after normalisation, 0.21 interruptions below the SAIFI limit.

*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**

We insure our vehicles and buildings (including substations) and have public liability insurance. We do not insure our network, for example poles and lines as the premiums are prohibitive. And we do not self-insure.

*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**

In the 2015/16 IDs schedule 8 cells T21, T22, T25 and T26 were incorrectly linked to **Energy delivered to ICPs** (cells H21, H22, H25 and H26 respectively) of the same schedule. It should have linked to the **Average no. of ICPs** (cells G21, G22, G25 and G26) of the same schedule.

The published 2015/16 IDs can be found at <http://www.alpineenergy.co.nz/disclosures>

Company Name	Alpine Energy
For Year Ended	31 March 2017

## **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**

To derive the capital expenditure in nominal dollar terms the constant price forecasts were inflated by approximately 2% per annum, on a straight-line basis, to derive the 10-year forecast. 2% was selected as a conservative inflationary rate based on New Zealand Treasury 10-year outlook. Therefore the difference between nominal and constant expenditure forecasts is an inflationary impact of 2% per year.

### *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**

To derive the operational expenditure in nominal dollar terms the constant price forecasts were deflated by approximately 2% per annum, on a straight-line basis, to derive the 10-year forecast. The expenditure is reducing to reflect the expected efficiency gains per annum that will be found by improvements to our processes and practices. We expect to share these benefits with customers by reducing our operating expenditure, in real terms, over the next 10 years. Therefore the difference between nominal and constant operational expenditure forecasts is a reduction of 2% per year.

Company Name	Alpine Energy
For Year Ended	31 march 2017

### 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**

During 2017, in conjunction with implementing TechOne, a significant amount of work has been done to cleanse the data used to derive schedules 9a and 9b. Accordingly, the figures for schedule 9a *Items at start of year (quantity)* are materially different from *Items at end of year (quantity)* we reported in 2016.

The figures reported for both the *Items at start of year (quantity)* and the *Items at end of year* are newly derived and are our best available information to date. We have a significantly higher level of confidence in the figures reported in 2017 than we have had at previous reported years.

For this reason, the significant net change for some asset classes is within our expectations and it is due to the change of quality of information rather than the physical change of assets.