Company Name	Alpine Energy Limited
For Year Ended	31 March 2015

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 sub-clauses 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

Using the new template provided, our 2015 ROI- comparable to a post-tax WACC was calculated to be 4.98% and 2014 was calculated to be 3.23%.

Our resulting ROI in 2015 is approximately 20% lower than of the applicable mid-point estimate of the post-tax WACC of 6.1%. For 2014 the applicable mid-point estimate of the post-tax WACC is 5.43% and the ROI for 2014 is around 40% lower.

This result is expected as we are subject to the CPI+10% cap under the reset of the default price-quality path.

The new ROI template means that our declared ROI from 2014's disclosures has changed from 2.54% to 3.23%, which is a slight improvement in our regulatory position.

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 regulatory income for 2015 is $51m which is $8.8m up on our regulatory income in 2014.

The increase is largely due to an increase to lines charges under the CPI+10% cap. Energy delivered to consumers was up by 11% also contributed to the increase in revenue.

Other regulatory income is made up of sundry revenue of $4k which is down 84% on last period's sundry revenue figure of $27k. As per last year, we consider this to be a part of regulated revenues (other than line charge revenue and assets disposed).

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 this year as we did not merge with nor acquire any other regulated business during the disclosure year.

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 sub-clause 2.7.1(2).

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)

Our RAB increased in value from $157m to $166m over the year. Assets commissioned accounted for $18.7m which is higher than last year's assets commissioned figure of $11.2m. Assets commissioned in 2015 was $15.6m for Network assets and $3.1m for Non-network assets

There were also $817kof found assets which were identified as being omitted from the RAB previously and which were incorporated into the RAB in the 2014/15 period.

Major projects for 2015 include:

- Oceania Dairy Ltd—we have carried out 11kV and 33kV work to facilitate power supply this $214m Glenavy milk processing factory.
- Holcim—we provide two supplies, one at 11 kV at 1.5 MW and another at 400 V at 3 MW, to accommodate this load we are extending the Port 1 and Port 2 cables to their site including a tie to the Grasmere 16 cable.

Assets Disposed during the disclosure period were $225k, comprising Cables, Lines, Transformers and vehicles.

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

There were no material items to report.

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)
There were no material items.

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 sub-clause 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.

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 sub-clause 2.7.1(2).

Box 8: Cost allocation

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

We again fell below the 20% unregulated/regulated revenue threshold and accordingly:

- our not directly attributable costs are applied in totality to the regulated service
- allowing us to allocate all not directly attributable costs to the regulated service, had we had any.

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 sub-clause 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 sub-clause 2.7.1(2),

Box 10: Explanation of capital expenditure for the disclosure year

Capital expenditure for this period was $14 compared to $14.2m during 2014.

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 sub-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

Opex for 2015 is $13.8m, which is a decrease of 9.5% (or $1.45m) when compared to $15.3m expended in 2014. The subcategories of OPEX are:

- **service interruptions and emergencies** decreased by 67% (or $1,323k)
- **vegetation management** increased by 56% (or $62k)
- **routine and corrective maintenance and inspection** decreased by 2% (or $54k)
- **asset replacement and renewal** decreased by 55% (or $316k)
- **non-network** increased by 2% (or $182k)

The decrease in service interruptions and emergencies reduction can be attributable to fewer severe weather events with a corresponding reduction in network impact compared to previous disclosure periods where there were significant weather related issues.

Vegetation management increased due to recruitment of new staff to the team.

Routine and corrective maintenance held steady, with no material movement to report.

Asset replacement and renewal, the decrease is partly due to the capitalisation of what was traditionally considered opex spend, this is in keeping with other EDBs.

Non-network opex is held steady, with no material movement to report.

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 sub-clause 2.7.1(2).

Box 12: Explanatory comment on variance in actual to forecast expenditure

Capital expenditure

The Forecast values reported in Schedule 7(ii) are based on the Forecast in Schedule 11a of our Asset Management Plan—2015 to 2025. Using these values result in a significant variance between forecast and actual expenditure as seen at Figure 1 below.

Figure 1: Variance between the Reforecast Capex and Actual Capex

7(ii): Expenditure on Assets	Forecast ($000) ²	Actual ($000)	% variance
Consumer connection	2,890	4,760	65%
System growth	1,390	2,869	106%
Asset replacement and renewal	3,920	3,440	(12%)
Asset relocations	–	952	–
Reliability, safety and environment:			
Quality of supply	830	149	(82%)
Legislative and regulatory	–	4	–
Other reliability, safety and environment	910	3,577	293%
Total reliability, safety and environment	1,740	3,730	114%
Expenditure on network assets	9,940	15,751	58%
Expenditure on non-network assets	942	1,730	84%
Expenditure on assets	10,882	17,481	61%

The variance is the result of work-in-progress (WIP) not being included in the Forecasts published in Schedule 11a, but being included in Schedule 6a for Commissioned assets from which the Actual Capex at Schedule 7(ii) is linked.

To report a meaningful variance between forecast and actual expenditure we have reforecast the expenditure reported at 11a so as the forecast includes WIP (Reforecast). Figure 2 below shows the variance between the Reforecast (based on the 11a forecast plus WIP) and Actual expenditure.

Figure 2: Variance between the Reforecast Capex and Actual Capex

7(ii): Expenditure on Assets	Reforecast ($000)	Actual ($000)	% variance
Consumer connection	5,259	4,760	(9%)
System growth	2,367	2,869	21%
Asset replacement and renewal	4,672	3,440	(26%)
Asset relocations	16	952	5992%
Reliability, safety and environment:			
Quality of supply	921	149	(84%)
Legislative and regulatory	3	4	21%
Other reliability, safety and environment	2,519	3,577	42%
Total reliability, safety and environment	**3,443**	**3,730**	**8%**
Expenditure on network assets	**15,756**	**15,751**	**(0.03%)**
Non-network capex	1,166	1,730	48%
Expenditure on assets	**16,922**	**17,481**	**3%**

Under the Reforecast the variance between **Expenditure on network assets** is 0.03% (or $5k) and the variance on **Expenditure on assets** variance is 3% (or $559k). Both variances are well within materiality thresholds.

However, there are material variances within the expenditure categories. Indicating that while overall expenditure is well within expectations expenditure has moved between the categories as we adapt to the changing priorities throughout the period. Explanations for the expenditure category variances are provided below.

Consumer Connection was 9% lower (or -$499k) than forecast and **System growth** was 21% higher (or +$502) than forecast. These variances are due to expenditure for the reticulation assets at the Oceania Dairy factory (ODL), being included in system growth rather than consumer connection. For budgeting purposes all ODL expenditure was included as a consumer connection however once the project was underway and works were completed aspects of that work was assigned to the appropriate expenditure as the works became defined. Please note that the change in expenditure category allocation between forecast and actual nearly cancels the variance out.

Asset Replacement and renewal was 26% lower (or $1.2m) than forecast. This variance reflects the need to assign our resources to the expenditure areas of greatest priority.

Asset Relocations was 5992% higher (or $936k) than forecast. This variance is largely due to us relocating a number of assets to allow for ODL to use pivot irrigation on a number of its fields. We do not forecast asset relocations as this type of work is customer driven and therefore near impossible to forecast, accordingly the variance for this line item is often near to 100% though the dollar amount tends not to be material.

Total reliability, safety and environment was 8% higher (or $287k) than forecast. This variance is not material. There was some material variances in the subcategories of Quality of Supply (84% or $772K below forecast), Legislative and Regulatory (21% or $1k above forecast), and Other, Reliability safety and Environment (42% or $1.06m above forecast); which indicates the shifting priorities between subcategories by us in this category over the period.

Non-network capex was 48% higher (or $562k) than forecast. This variance reflects works done to our offices to accommodate the growth in staff numbers over the period, which we had not forecast for.

Operational expenditure

Our OPEX spending was 4% or ($605k) below forecast at $13.8m when compared to forecast expenditure of $14.4m.

The variance in **Operational expenditure** at 4% is not considered material. However, there was a material variance in **Network opex**, which was 20% below (or $1.09m) than forecast, and the subcategories of expenditure.

Figure 3 below shows the variances by expenditure category.

Figure 3: Variance between Forecast and Actual Opex

7(iii): Operational Expenditure

Service interruptions and emergencies	1,895	656	(65%)
Vegetation management	94	172	82%
Routine and corrective maintenance and inspection	2,764	3,178	15%
Asset replacement and renewal	595	256	(57%)
Network opex	5,348	4,261	(20%)
System operations and network support	3,872	5,155	33%
Business support	5,207	4,406	(15%)
Non-network opex	9,079	9,561	5%
Operational expenditure	14,427	13,822	(4%)

Service interruptions and emergencies was 65% lower (or $1.24m) than forecast. Forecast expenditure for this category is based on historic averages of expenditure on our network following severe weather events. Unlike recent years we did not experience severe weather events during 2014/15. An underspend is a very good thing.

Vegetation management was 82% higher (or $78k) than forecast. We have increased vegetation management on our network following the 2013 severe weather events which resulted in a large number of outage being caused by trees falling across our lines[1].

Routine and corrective maintenance and inspection was 15% higher (or $414k) than forecast and **Asset replacement and renewal** was 57% lower (or $339K) than forecast. This variance indicates a change in priorities between these two groups of expenditure during the period. By increasing our inspection of assets we were able to determine that deferral of replacement and renewal was appropriate.

Non-network opex was 5% higher (or $482k) than forecast, which is not a material variance. There were however material variances in the sub-categories of System operations and network support (of 33% or $1.3m above forecast) and Business support (of 15% or $802k below forecast) indicating a trade-off between these expenditures as we imbedded new systems and brought on new staff to support the growth on our network.

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

[1] Many of the trees that went through our lines were outside of the mandated distance of 150 meters. More information on trees clearance distances can be found on our website at http://www.alpineenergy.co.nz/our-network/sub-menu-modid-156/47-tree-requirements.

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 was 4.1% (or $2m) above budget at $51.1m compared to the target of $49.1m. The rise is due to organic growth across our 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 reliability performance for the current disclosure period was comfortably below the quality thresholds of 1.69 for the SAIFI reliability limit and 164.2 for the SAIDI reliability limit.

Our Normalised SAIFI was 1.16 interruptions and our Normalised durations were 140.3 SAIDI minutes.

Fortunately for the current disclosure period, severe weather events did not have the same effect on network reliability that was seen in the 2014 disclosure period which saw a large breach of reliability limits.

Notes to the qualified audit opinion - There are inherent limitations in our ability to collect and record Network reliability information required to be disclosed in Schedules 10 (i) to Schedule 10 (iv). Consequently there is no independent evidence available to support the completeness and accuracy of recorded faults and control over the completeness and accuracy of recorded faults and control over the completeness and 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

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

No Amendments to previously disclosed information was made.

Company Name	Alpine Energy Limited
For Year Ended	31 March 2015

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 2015

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
We have no additional comment