Company Name	Alpine Energy Limited
For Year Ended	31 March 2014

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

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 2.5.2.

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 clause 2.7.1(2).

Box 1: Explanatory comment on return on investment

Our return on investment (ROI)–comparable to a post-tax WACC for 2013 was 2.10% and for 2014 is 2.57%. Our resulting ROI in each year is approximately half of the applicable mid-point estimate of the post-tax WACCs of 5.85% and 5.43%[1] respectively.

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

To mitigate price shocks the Commission capped our prices increases to under that which would have applied had prices, as at 1 April 2010, been set based on the input methodologies.

Our prices as at 1 April 2014 would have to have increased by around 30% for our ROI to be equal to the post tax WACC. We support the Commission's decision to apply the CPI+10% price cap as increases of more than 30% would have been problematic for many of our consumers.

We have been informed that an industry wide miss interpretation of the treatment of revaluations, for the purposes of deriving the ROIs, occurred in the 2013 disclosure year. Accordingly, we have restated our ROIs for the 2012 and 2013 disclosure years including revaluations in the table below.

	Original ROIs		Restated ROIs	
	2012	**2013**	**2012**	**2013**
ROI—comparable to a post-tax WACC	1.97%	2.10%	2.42%	2.33%
ROI—comparable to a vanilla WACC	2.79%	2.88%	3.25%	3.11%

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 regulatory line income' other than gains and losses on asset sales, as disclosed in 3(i) of Schedule 3

   5.2 Information on reclassified items in accordance with clause 2.7.1(2).

[1] The cost of capital mid-point estimate of vanilla and post-tax WACC for 2014 and 2013, was sourced from the Commerce Commission's cost of capital determinations.

Box 2: Explanatory comment on regulatory profit

Our regulatory income for 2014 is $42.2m which is $3.5m up on our regulatory income in 2013. The increase is largely due to the increase to lines charges under the CPI+10% cap.

Other regulatory income is made up of sundry revenue of $26,672 which is 6% (or $2k) down on sundry revenue in 2013. 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 clause 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 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 $153.2m to $156.8m over the year. Assets commissioned accounted for $11.2m which is lower than last year's assets commissioned figure of $29.1m. Assets commissioned in 2013 were unusually high due to a focussed effort to close 400 open jobs.

Major projects during 2014 included:

- Bells Pond to Cooneys Rd 110kV double circuit at approximately $3.5m
- Pareora 33kv feeders 1 and upgrade at approximately $340k
- Mahan Rd 11kV feeder extension at approximately $250k.

No items were reclassified.

Assets disposed during the year included:

- $110k for poles broken by strong winds in September 2013
- $22k for retired SCADA equipment as part of the Victoria Street substation upgrade
- $36.4k for retired protection equipment as part of the Grasmere Street substataion upgrade.

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the following items, as recorded in the asterisked categories in 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 entertainment expenditure of $5.462m ($1.529m tax effect)
    - GST on non-deductible entertainment expenditure of $974k ($273k tax effect)
- Income included in regulatory profit / (loss) before tax but not taxable:
    - Total revaluations (per S4) of ($2.479m) (($694k) tax effect)
- 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 items recorded in the asterisked category 'Tax effect of other temporary differences' in 5a(vi) of Schedule 5a.

Box 6: Temporary differences / Tax effect of other temporary differences (current disclosure year)

- Closing 2014 temporary differences comprise:
    - Employee entitlements of $492,417 ($137,877 tax effect)
    - ACC accrual of $46,556 ($13,036 tax effect)
    - Sponsorship adjustments of $124,450 ($34,846 tax effect)
- Opening 2013 temporary differences comprise:
    - Employee entitlements of ($430,669) (($120,587) tax effect)
    - ACC accrual of ($42,054) (($11,775) tax effect)
    - Sponsorship adjustments of ($10,659) ($2,985) tax effect)

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 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 in accordance with clause 2.2.11 (5) of the Input Methodologies and clause 2.3.6 (1)(b) of the Information Disclosure Requirements (IDs).

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 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.

This year 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 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 capital expenditure 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 clause 2.7.1(2),

Box 10: Explanation of capital expenditure for the disclosure year

Capital expenditure for this period was $14.4m compared to $28.3m during 2013.

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 operating expenditure, as reported in 6b(i) of Schedule 6b;

    14.2 information on reclassified items in accordance with 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 2014 is $15.3m, which is an increase of 19% (or $2.9m) when compared to $12.3m expended in 2103. The increase was across all subcategories of expenditure.

- **service interruptions and emergencies** increased by 39% (or $771k)
- **vegetation management** increased by 14% (or $15k)
- **routine and corrective maintenance and inspection** increased by 28% (or 910k)
- **asset replacement and renewal** increased by 34% (or $194k)
- **non-network** increased by 12% (or $1.1m).

The increases in service interruptions and emergencies, and vegetation management were predominately due to correctional work and prevention following the storm events between June and October 2013. Increases in routine and corrective maintenance and inspection, and asset replacement and renewal were due to resources being available to complete deferred projects form 2012 and 2013 following the conclusion of a number of significant capex jobs. And the increase in non-network is the result of our increase in staff numbers and the embedding of new IT systems

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 clause 2.7.1(2).

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

Our CAPEX spending was 14% (or $3.1m) below forecast at $19.5m compared to a forecast of $22.7m. This variance however is not truly reflective of underspend in capex.

Since the introduction of the expenditure categories in the 2012 information disclosure determination we have been aligning our general ledger codes with the expenditure categories. Work began in late 2013 to set the targets, reported in schedule 11a and 11b of the AMP, to align with the expenditure categories and further work was carried out to tighten the identification of expenditure after publication of the AMP in March 2014. This has resulted in a misalignment between the report target expenditure and actual expenditure, which appears as material variances (i.e., greater than 10%). These variances however are not changes to planned expenditure rather a change in the way we have classified our expenditure between setting the targets and reporting the actual.

Once we rehang our current forecast and actual expenditure to better align with the expenditure categories in the information disclosure requirements we get the variances shown at Figure 1 below.

Figure 1: Results of the Capex re-forecast

7(ii): Expenditure on Assets	Forecast ($000) [2]	Actual ($000)	% variance
Consumer connection	3,696	3,701	0%
System growth	8,967	8,775	(2%)
Asset replacement and renewal	2,848	2,688	(6%)
Asset relocations	26	265	928%
Reliability, safety and environment:			
Quality of supply	98	86	(11%)
Legislative and regulatory	-	-	-
Other reliability, safety and environment	3,096	2,499	(19%)
Total reliability, safety and environment	**3,193**	**2,585**	**(19%)**
Expenditure on network assets	**18,730**	**18,015**	**(4%)**
Non-network capex	1,320	1,444	9%
Expenditure on assets	**20,050**	**19,458**	**(3%)**

Under the reforecast our CAPEX spending was 3% (or $592k) below budget at $19.5m compared to a forecast of $20.1m. The variance in total expenditure is not considered material. However, there are the following material variances in the subcategories of expenditure:

- **asset relocations** with an overspend of 928% (or $239k), which is predominately due to $189k of expenditure being brought forward from the 2015 period
- **quality of supply** with a underspend of 11% (or $11k), which is due to deferred expenditure from 2014 the largest of which is Equipment at approximately $7.5k
- **other reliability, safety and environment** with an underspend of 19% (or $597k), which is predominately as a result of the delayed commissioning of our mobile 33/11

substation

Our OPEX spending was 5% or ($779k) above forecast at $15.3m when compared to forecast expenditure of $14.5m. The variance in total expenditure is not considered material. However, there are the following material variances in the subcategories of expenditure:

- **service interruptions and emergencies** with an overspend of 33% (or $494k), which is predominately due to storm damage on our network during the period
- **asset replacement and renewal** with an underspend of 28% (or $226k), which is predominately due to the deferral of projects following the storm damage during the period
- Our total **non-network** opex was below budget by 3% (or $238k), which does not represent a material variance. The subcategories of expenditure however were material with **system operations and network support** overspend of 23% (or $921k) and **business support** underspend of 13% (or $682k). These variances are the result of deferring and/or bring forward projects in the various departments following growth in staff and the embedding of new systems.

The floods, snow storms, and severe winds which affected us from June to October 2013 required us to shift resources to service interruptions and emergencies by diverting resources from asset replacement and renewal. More detailed discussion of the storms and the impact on us can be found in our Annual Compliance Statement on our website at http://www.alpineenergy.co.nz/

Information relating to revenue 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 clauses 2.4.1 and 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

Target line charge revenue was 2% (or $938k) below budget at $42.4m compared to the target of $43.3m. This variance is not considered to be material.

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 exceeded the targets for the period by 711 SAIDI minutes and 0.76 SAIFI interruptions.

Our SAIDI performance was 875.2 SAIDI minutes and our SAIFI performance was 2.45 interruptions. The storm events between June and October 2013 contributed over 600 SAIDI minutes and 0.45 SAIFI interruptions to our overall performance.

Once normalised, that is the effect of major events days are accounted for, we still exceed the allowable SAIDI and SAIFI limits. Our normalised SAIDI performance was 274.8 SAIDI minutes, some 110.5 SAIDI minutes above our limit, and our SAIFI was 2.0 interruptions, some 0.3 interruptions above our limit.

Exceeding the allowable limits does not amount to a breach as the ‘two out of three year’ applies, and we performed within the limits in 2012, and 2013.

Notes to the qualified audit opinion—Our network reliability performance exceeds the quality requirements under the default price-quality path, however there are inherent limitations in ability of Alpine Energy Limited to collect and record the network reliability information required to be disclosed in Reports 10(i) to 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 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.

Company Name	Alpine Energy Limited
For Year Ended	31 March 2014

Schedule 14a Mandatory Explanatory Notes on Forecast Information

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule provides for EDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.

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 disclosure year, 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 disclosure year, 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 Limited
For Year Ended	31 March 2014

Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule enable 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, 2.5.2, and 2.6.5;

   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

An exemption, in accordance with section 2.11 of the *Electricity Distribution Information Disclosure Determination 2012* (determination), was granted for the following measures:

(i) overhead circuit requiring vegetation management, measured in circuit length (km), at Schedule 9c: report on overhead lines and underground cables; and

(ii) 6a(iii): Consumer Connection broken down into consumer types at Schedule 6a: report on capital expenditure for the disclosure year.

We do not currently record, in kilometres, the overhead circuit length requiring vegetation management within a database, rather our records are simple paper based records making it impossible to report the measure as is required by the determination. We will scope the capture of the necessary data into a database to report this measure as part of our wider IT systems review.

We have not historically kept information for customer connection capital expenditure by customer type in our accounting system and accordingly we cannot provide the breakdown at this time. We will amend our processes and systems (both financial and billing) so as customer connection jobs can be assigned with the necessary information to match expenditure to customer type for reporting purposes.

The exemption applies, to both measures, for two years (i.e., 2012/13 and 2013/14 disclosure years) to give us time to capture the required data in the appropriate format.