

Company Name	Alpine Energy
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 11 of this schedule is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for EDBs to give additional explanation of disclosed information should they elect to do so.

### *Return on Investment (Schedule 2)*

4. In the box below, comment on return on investment as disclosed in Schedule 2. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

#### **Box 1: Explanatory comment on return on investment**

Our 2020 ROI comparable to a post-tax WACC is 12.61%, an increase from 8.81% last year. Our resulting ROI is 5.42% above the WACC rate used to set regulatory price path of 7.19%.

This is expected with the increase in revenue of \$12.4m from 2019. The Commerce Commission granted Alpine a CPI+11% adjustment per year on revenue during DPP2 to recover un-earned revenue from previous periods.

### *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 2020 is \$78m which is an increase of \$12m compared to regulated income for the previous year.

The Commerce Commission awarded Alpine a CPI+11% adjustment per year on revenue during DPP2 to recover un-earned revenue in previous periods.

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. Alpine Energy 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 \$219M to \$228M during the disclosure year.

For 2020 we had less assets commissioned than we had in 2019 (\$12M in 2020 compared to \$18M in 2019). Alpine invested in additional assets during the first four years of DPP2 to ensure that the network was maintained appropriately. This is evident by Alpine operating within its quality of supply (SAID/SAIFI) limits. During 2020, Alpine reduced expenditure to minimise any impact of overspending on its DPP2 allowances.

Major projects for the year included:

- Tara Hill overhead line replacement
- Unwin Hutt (Mount Cook)
- Substation at old man range
- School road, Fairlie overhead line

There were \$65k non-network regulatory disposals during the year.

Alpine has continued to review the categorisation of RAB assets into Information Disclosure headings as part of a change to a new asset management system. This review has highlighted a small number of assets which required re-categorisation within the RAB. The reclassification of these assets has been disclosed within the asset category transfers in line 106 of schedule 4, and has no impact on the closing RAB value.

Lost and found assets in line 104 of schedule 4 refers to assets disposed in 2019 where there were no proceeds on the disposal. These assets have added into the RAB.

*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:**

	\$
Donations - Non Deductible	2,645.00
Non Deductible Consulting	129,915.17
Non Deductible Entertainment	29,995.96
Non Deductible Legal Expenditure	10,012.48
Non-deductible GST on entertainment	5,447.00

**Income included in regulatory profit / (loss) before tax but not taxable:** nil**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)**

The opening balance of the temporary differences was \$736k.

The closing balance is \$799k and comprises of the following items:

	\$
Accrued ACC	27,153.40
Annual Leave Provision	683,085.06
General Provision for Sponsorship	27,000.00
Insurance Accrual Not Derived	-79,167.14
Long Service Leave Provision	141,303.76

The tax effect on the net movement of \$64k is \$18k.

*Cost allocation (Schedule 5d)*

10. In the box below, comment on cost allocation as disclosed in Schedule 5d. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

**Box 7: Cost allocation**

This is the second year that Alpine applied cost allocations to their operating expenditure.

A proxy allocator was used based on the percentage revenue attributed to non-regulated businesses to regulated income. The value of costs totalling \$322K (5.29%) was allocated to non-electricity distribution services.

*Asset allocation (Schedule 5e)*

11. In the box below, comment on asset allocation as disclosed in Schedule 5e. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

**Box 8: Commentary on asset allocation**

This is the second year that Alpine has applied asset allocations to the regulatory asset base.

A proxy allocator was used based on a head count of staff utilising regulatory Land and Buildings in South Canterbury. The value amounted to \$6,252K which was attributed to not directly attributable electricity distribution.

All other assets were allocated as directly attributable.

*Capital Expenditure for the Disclosure Year (Schedule 6a)*

12. In the box below, comment on expenditure on assets for the disclosure year, as disclosed in Schedule 6a. This comment must include-
- 12.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;
  - 12.2 information on reclassified items in accordance with subclause 2.7.1(2).

**Box 9: Explanation of capital expenditure for the disclosure year**

Capital expenditure for this period was \$13.2M in Schedule 6a, compared to \$14.5M during 2019.

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, Technology One, 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)*

13. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-

- 13.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b;
- 13.2 Information on reclassified items in accordance with subclause 2.7.1(2);
- 13.3 Commentary on any material atypical expenditure included in operational expenditure disclosed in Schedule 6b, a including the value of the expenditure the purpose of the expenditure, and the operational expenditure categories the expenditure relates to.

**Box 10: Explanation of operational expenditure for the disclosure year**

OPEX for this period is \$21.3M (in Schedule 6b), compared to the OPEX spend in 2019 of \$18.3M.

- **service interruptions and emergencies** \$2.6M
- **vegetation management** \$1M
- **routine and corrective maintenance and inspection** \$3.4M
- **asset replacement and renewal** \$432k
- **non-network** \$13.9M

No items have been reclassified this period.

2020 Information Disclosure data was captured against activities in TechOne against tasks.

No material atypical expenditure occurred during this period.

*Variance between forecast and actual expenditure (Schedule 7)*

14. In the box below, comment on variance in actual to forecast expenditure for the disclosure year, as reported in Schedule 7. This comment must include information on reclassified items in accordance with subclause 2.7.1(2).

**Box 11: Explanatory comment on variance in actual to forecast expenditure***Revenue*

Our actual revenue at \$78.4M was \$4.7M (or 6%) less than our target revenue of \$83.1M. This result was predominately due to a wetter than average summer with reduced irrigation pumping load resulting in decreased energy usage.

*Capital Expenditure*

The forecast values reported in Schedule 7 are based on the Forecast at constant prices in Schedule 11 to 13 included in the Asset Management Plan.

**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	2,000	4,626	131%
System growth	1,072	343	(68%)
Asset replacement and renewal	8,045	8,817	10%
Asset relocations	350	256	(27%)
Reliability, safety and environment:			
Quality of supply	626	–	(100%)
Legislative and regulatory	–	–	–
Other reliability, safety and environment	765	984	29%
<b>Total reliability, safety and environment</b>	1,391	984	(29%)
<b>Expenditure on network assets</b>	12,858	15,025	17%
Expenditure on non-network assets	2,842	1,026	(64%)
<b>Expenditure on assets</b>	15,700	16,051	2%

The variance for Expenditure on network assets is 17% or \$2,167K and the variance on Expenditure on non-network assets is 64% or (\$1,816k). This was due to increased labour and sub-contractor costs for network capital expenditure.

The overall expenditure is within expectations and has moved between the categories as we adapt to the changing priorities throughout the period.

*Operational Expenditure***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	1,750	2,562	46%
Vegetation management	800	1,036	30%
Routine and corrective maintenance and inspection	2,700	3,426	27%
Asset replacement and renewal	700	432	(38%)
<b>Network opex</b>	5,950	7,457	25%
System operations and network support	4,629	8,118	75%
Business support	9,183	5,768	(37%)
<b>Non-network opex</b>	13,812	13,886	1%
<b>Operational expenditure</b>	19,762	21,343	8%

Again, the expenditure has moved between the categories due to change of priorities throughout the disclosure year. As per CAPEX, higher labour and sub-contractor costs resulted in the actual network OPEX exceeding the forecasts.

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

*Information relating to revenues and quantities for the disclosure year*

15. In the box below provide-
- 15.1 a comparison of the target revenue disclosed before the start of the disclosure year, in accordance with clause 2.4.1 and subclause 2.4.3(3) to total billed line charge revenue for the disclosure year, as disclosed in Schedule 8; and
  - 15.2 explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue.

**Box 12: Explanatory comment relating to revenue for the disclosure year**

Actual line charge revenue 6% below budget due to weather and irrigation consumption being less than expected.

*Network Reliability for the Disclosure Year (Schedule 10)*

16. In the box below, comment on network reliability for the disclosure year, as disclosed in Schedule 10.

**Box 13: Commentary on network reliability for the disclosure year**

Alpine Energy's SAIDI performance (class B + class C) was 154.2 SAIDI minutes.

It is important to note that:

- (i) the difference between the target and actual does not amount to the SAIDI limit under Default Price Quality Path (DPP); and
- (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 0.93 SAIFI interruptions.

Alpine Energy complied with the quality standards for 2020.

*Insurance cover*

17. In the box below, provide details of any insurance cover for the assets used to provide electricity distribution services, including-
- 17.1 The EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;
  - 17.2 In respect of any self-insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.



**Box 14: Explanation of insurance cover**

Alpine 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 do not self-insure.

*Amendments to previously disclosed information*

18. In the box below, provide information about amendments to previously disclosed information disclosed in accordance with clause 2.12.1 in the last 7 years, including:
  - 18.1 a description of each error; and
  - 18.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

### **Box 15: Disclosure of amendment to previously disclosed information**

In preparing the 2023 information disclosures, we identified material errors in the previously disclosed information. The errors are in relation to the calculation of depreciation as disclosed in Schedule 4: *Report on value of the regulatory asset base (rolled forward)* for disclosure years 2014 to 2022. As a result of these errors, the revaluations and opening and closing values of the regulatory asset base for these disclosure years were also incorrect.

The error is due to a calculation error in the RAB roll forward workbooks, erroneously calculating depreciation, with the largest impact on assets commissioned pre-2010.

The errors have a flow-on impact on the following schedules, which are linked to the disclosures in Schedule 4:

- Schedule 1: Analytical ratios
- Schedule 2: Report on return on investment
- Schedule 3: Report on regulatory profit
- Schedule 5a: Report on regulatory tax allowance
- Schedule 5e: Report on asset allocations
- Schedule 14: Mandatory explanatory notes

We have restated the disclosures from 2014 to 2022 at the same time we prepared the 2023 disclosures. The Commerce Commission granted us an exemption<sup>1</sup> to extend our submission date for 2023 information disclosures to 30 November 2023 to ensure that all the previous disclosures could be corrected at the same time.

We also obtained new independent assurance reports and director' certificates for each of the impacted years (2014 - 2022).

A full summary of the previously disclosed financial information, the restated financial information and the variances have been included as a separate schedule for ease of reference and understandability. Refer to Appendix B: *Impact of restatements*.

The restated disclosures have been uploaded to: <https://www.alpineenergy.co.nz/corporate/disclosures/information-disclosures2>

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<sup>1</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0025/328831/Electricity-Distribution-ID-Exemption-Alpine-Energy-Limited-Extension-to-the-deadlines-for-year-ending-disclosures-30-August-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0025/328831/Electricity-Distribution-ID-Exemption-Alpine-Energy-Limited-Extension-to-the-deadlines-for-year-ending-disclosures-30-August-2023.pdf)

Company Name Alpine Energy

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**

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  
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### **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**

We have a significantly higher level of confidence in the figures reported in 2020 than we have had at previous reported years. This is due to the implementation of Technology One in 2017 and continued data cleansing to derive schedules 9a and 9b. This relates specifically to the quality of information rather than the physical change of assets.

Network reliability is compliant with quality requirements under the default price-quality path, however there are inherent limitations in the ability of Alpine Energy 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 and completeness of recorded faults and control over the accuracy and completeness of installation control point ('ICP') data included in the SAIDI and SAIFI calculations is limited throughout the year.