

|                |               |
|----------------|---------------|
| Company Name   | EA Networks   |
| For Year Ended | 31 March 2022 |

## 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).

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

#### **4. Comment on return on investment as disclosed in Schedule 2**

The Commerce Commission set prices assuming that CPI would be 2.00% for the 2021-22 year, which would have resulted in \$6M revaluation on RAB assets. Actual inflation for the corresponding period was 6.93%, which has resulted in a \$20M revaluation of RAB assets.

When schedule 4(iii), calculation of revelation rate and revaluation of assets, is set to the Commerce Commission forecasted CPI number for the period (2.00%), the ROI drops to 4.28%. The 4.28% is broadly in line with the WACC set for the regulatory period of 4.57%.

#### **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 in accordance with the requirements of 2.7.1(2).

### *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).

### **Regulatory Profit (Schedule 3)**

#### **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**

Other regulatory income mainly comprises \$205K of new connections fees. Additional information concerning when new connection fees are charged can be found in EA Networks new connection and extension policy downloadable from:

<https://www.eanetworks.co.nz/assets/PDFs/Disclosures/Regulatory/Other/e7d903803e/New-Connections-Extensions-PolicyEA-v2.pdf>.

The balance of other regulatory income mainly comes from solar applications (\$15K). The maximum amount that EA can charge for solar applications is detailed in the 'Electricity industry participation code 2010 and associated amendments'.

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

No items have been reclassified in accordance with subclause 2.91.(2).

### *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 Merger and acquisition expenses**

#### **6.1 information on reclassified items in accordance with subclause 2.7.1(2)**

No items have been reclassified 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.**

No merger or acquisition occurred in the reporting period.

### *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)**

**Comment on the value of the regulatory asset base (rolled forward) in Schedule 4.**

During the disclosure year RAB increased by \$20.973million. This increase was mainly due to \$20.799 million total revaluation movement resulting from an unusually high CPI movement for the period. All assets commissioned, decommissioned and depreciated in the year have followed the requirements of the determination. ABAA has resulted in \$0.109M of 'non-network assets not directly attributable' being transferred from unallocated RAB to RAB. The closing difference between RAB and unallocated RAB is \$2.581M.

The closing value of RAB for the period was \$321.934 million.

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

No items have been reclassified in accordance with subclause 2.7.1(2).

*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**

|  | (\$000) |
|--|---------|
| <b>8.1 Income not included in regulatory profit / (loss) before tax but taxable</b>        |         |
| Capital contributions  | 58      |
| <b>8.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible</b> |         |
| Non-Deductible entertainment and legal fees  | 32      |
| <b>8.3 Income included in regulatory profit / (loss) before tax but not taxable</b>        |         |
| None   | 0       |
| <b>8.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax</b> |         |
| None   | 0       |

*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)**

| <b>Tax effect of other temporary differences</b>       | <b>(\$000)</b> |
|--|----------------|
| Early repayment of new investment contracts            | 2,070          |
| Annual leave provision and other employee related cost | (47)           |
| Prior period adjustment                                | (141)          |
| <b>Total</b>   | <b>1,882</b>   |

*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****Comment on cost allocation as disclosed in Schedule 5d**

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 existing between not directly attributable business support operating costs and the way costs are incurred.

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

No items have been reclassified in accordance with subclause 2.7.1(2)

*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****Comment on cost allocation as disclosed in Schedule 5e**

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 existing between not directly attributable non-network asset and the way in which the asset is employed by EA Networks.

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

No items have been reclassified in accordance with subclause 2.7.1(2)

*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**

**12.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a.**

Projects individually reported in the 2021 AMP. The budget section of the 2021 AMP gives additional detail concerning how projects are individually section for separate disclosure in the AMP.

**12.2 information on reclassified items in accordance with subclause 2.7.1(2).**

There has been no re-classification in accordance with subclause 2.7.1(2).

*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**

**13.1 Commentary on assets replacement or renewal reported in 6b(i) of Schedule 6b**

Asset replacement or renewal relates to work undertaken to maintain RAB assets in functional order. An example of such maintenance include:

- Replacement of a cross arm but not the pole itself.
- Repairs to a substation fence, but not the replacement of the fence.
- Repairs to distribution transformers, switchgear, pillar boxes and ABS but not their replacements.
- The relocation cost of moving a physical transformer from one location on the network to another, but not the cost of installing a transformer pad and plumbing it into the network.
- Network operational expenditure is managed together collectively. Total network opex costs incurred in the year match's target.

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

There has been no re-classification 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.**

The IASB issued a clarification on the treatment of Software as a Service (SaaS) in relation to NZ IAS 38, Intangible Assets. This resulted in \$0.117 million of SaaS development costs incurred in the year being expensed. This cost is atypical in nature when examining historical trends.

*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**

In line with the determination, expenditure types are compared to the AMP forecast. When an actual expenditure for a disclosure headings expenditure is greater than 110% of the AMP forecast comment is made.

#### **Expenditure on Assets**

Total expenditure on assets closely matches our forecast.

#### **Variances within each disclosure of asset expenditure, where the variance is greater than 10%**

##### **Consumer connections**

The target was set using historical information and known demand for consumer connection work in the disclosure year. Actual demand for subdivision and 'other' consumer connections was much higher than expected and resulted in an \$1.293 million being investment.

##### **System growth**

When the target was set \$0.298 million of SCADA investment was incorrectly included under quality of supply. The actual investment in SCADA for the disclosure year was \$0.139 million which has been recorded under system growth in accordance with the determination.

The balance of higher than planned investment represents catch-up of projects which had not been completed in prior years.

##### **Asset replacement and renewal**

Covid-19 and resourcing issues adversely affected the ability to meet the targeted investment.

##### **Asset relocations**

3 unplanned requests for relocation of assets were received during the year.

##### **Quality of Supply**

Actual spending on quality of supply was 14% lower than the forecast. This is primarily due to delays resulting from the COVID-19 pandemic and resourcing issues. The forecast also included expenditure for the SCADA – Distribution Automation Project which should have been included as system growth.

##### **Other reliability, safety, and environment**

Actual costs for the year include additional expenditure on earthing, resulting from an underspend in this area in prior years.

#### **Operational Expenditure**

Total operational expenditure was within 1% of target.

#### **Variances within each disclosure of asset expenditure, where the variance is greater than 10%**

##### **Service interruptions and emergencies**

During the year EA Networks experienced several major events caused by wind and flooding. While the target included a provision for major events based on historical trends, the actual number and cost of major events was higher than the historical trends.

##### **Vegetation management**

Due to resourcing issues and COVID-19 pandemic actual expenditure was less than target.

##### **Routine and collective maintenance and inspection**

The higher than planned expenditure reflects a catch-up on inspections from prior years.

#### **Subcomponents of assets expenditure (where known)**

##### **Overhead to underground conversion.**

Reflects delays in the conversion program resulting COVID-19 pandemic.

##### **Research and development (capex)**

The amount allowed for in the AMP was a provision which was only to be spent if project was identified, only a limited number of projects were identified.

### **Subcomponents of operational Expenditure (where known)**

#### **Research and development (opex)**

The amount allowed for under this heading was a provision which was only to be spent if project was identified, only a limited number of projects were identified.

#### **Insurance**

Reflects unforeseen cost increase in public liability premiums.

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

No items have been reclassified in accordance with subclause 2.6.1(2).

### *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**

**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.**

Targeted line charges (\$41.268 million) closely matched actual line charge revenue (\$41.405 million).

**15.2 Explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue**

No material differences occurred in the year.

### *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.**

**10(i) Interruptions by class**

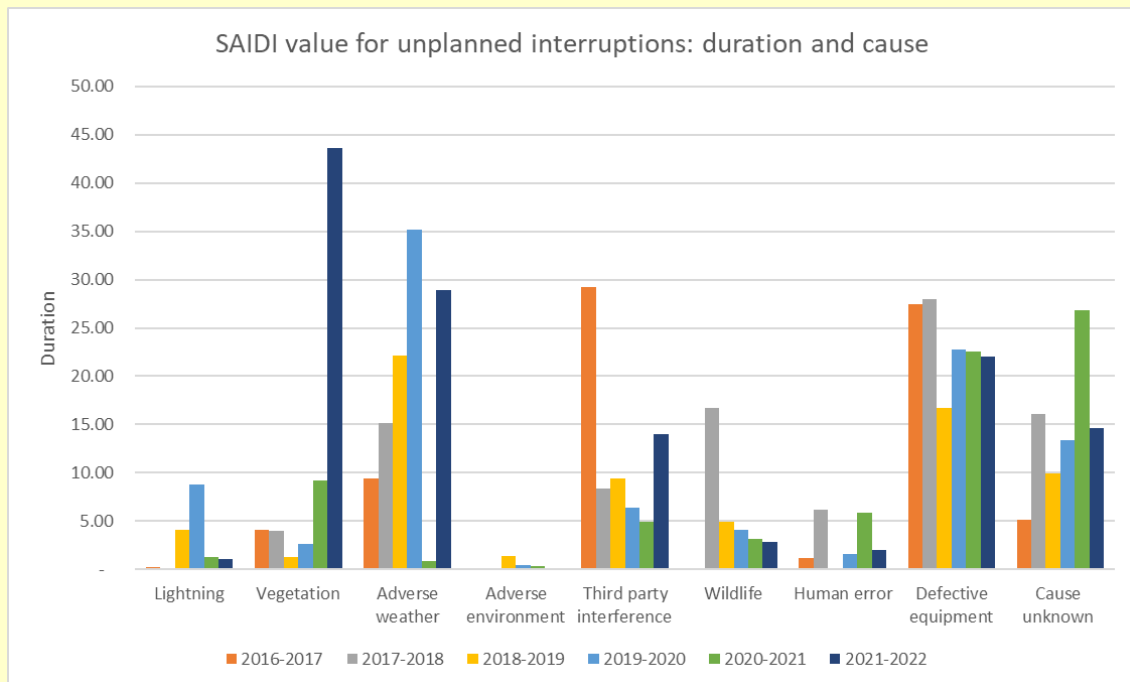
Unplanned interruptions on the network

Total unplanned interruptions on the network increased 22 from the prior year (282 in 2021 compared to 304 in 2022). The main reason for the increase was 21 adverse weather events.

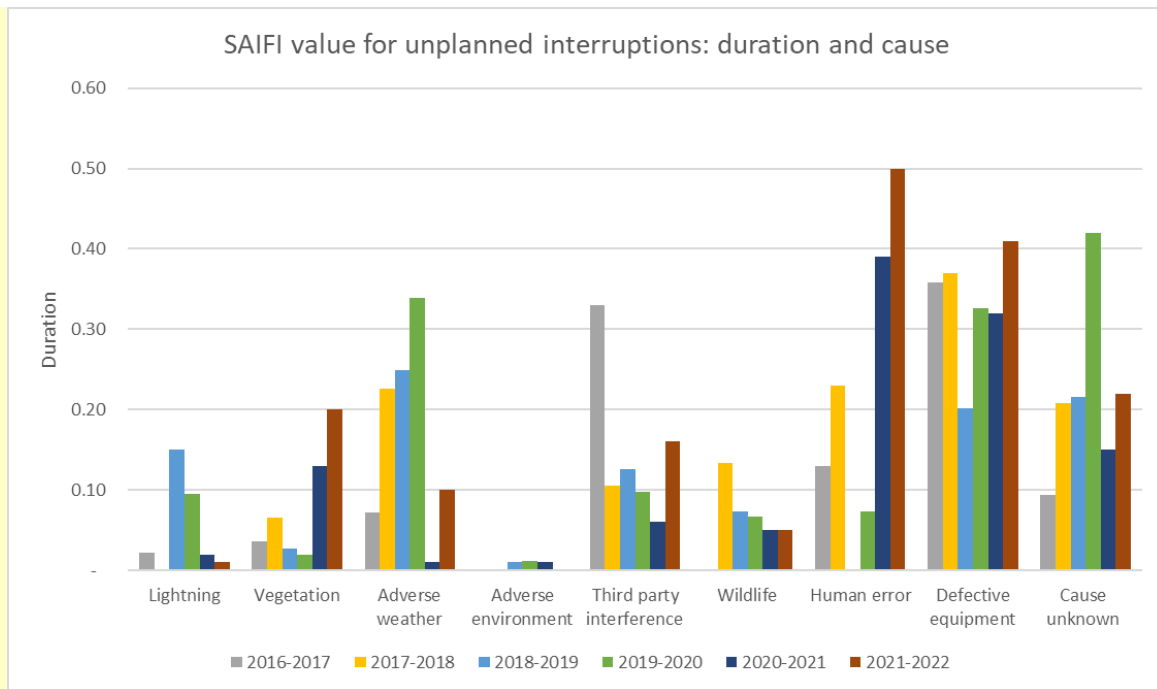
**Interruptions restoration**

Class C interruptions with a restore time greater than 3 hours increased from 70 in 2021 to 85 in 2022. This increase reflects unusually high wind and flooding damage to the network in 2022.

**10(ii) Class C interruptions and duration by cause.**



The chart above shows 10(ii) SAIDI Class C Interruptions and Duration by Cause over a 6-year period. For the year 2021-2022-year SAIDI caused by vegetation faults was unusually high which reflects the severe winds the network experienced during the year. During the 2021-22 year the network was also affected by severe floods which had an unusually high impact on SAIDI. Defective equipment continues to be a notable cause of interruptions.



The prime reason for the unusual SAIFI resulting from high human error is explained in 2021-2022 Default Price-Quality Path annual Compliance Statement. Defective effective equipment continues to be a leading cause of SAIFI.

#### Limitation on reliability information

Even through EA Networks reliability is compliant with ID's quality requirements there are inherent limitations in the ability to collect and record the network reliability information to be disclosed in Schedule 10(1) to 10(iv). Consequently, there is no independent evidence available to support the accuracy of recorded faults, and EA Networks has limited control over the completeness and accuracy of installation control point ('ICP') data included in the SAIDI and SAIFI calculations.

#### Exemption related to Schedule 10 - Network reliability and note on director certification

On 17 May 2021, the Commission Commerce released a document:

To: All suppliers of electricity distribution services as regulated under Part 4 of the Commerce Act 1986: titled, Information Disclosure exemption: Disclosure and auditing of reliability information within Schedule 10.

The Commission granted all EDBs an exemption for the 2022 disclosure year, subject to the condition at paragraph 7 of the letter, from:

- the requirement that the assurance report required to be procured by clause 2.8.1(1) of the ID determination in respect of the information in Schedule 10 of the ID determination must consider any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions.

The Directors of Electricity Ashburton Limited note that they have not been provided a comparable exemption from:

- the requirement that the certificate required by clause 2.9.2 of the ID determination in respect of clause 2.5.1(1)(f), the information in Schedule 10 of the ID determination, must take into account any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions.

The Directors of Electricity Ashburton Limited certify that:

Electricity Ashburton Limited has continued to treat successive interruptions as a single event. This approach is the same as what was used in the 2021 disclosure year.

### *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**

##### **17.1 level of insurance**

Where it is economically sensible to ensure assets EA Networks has insurance in place. In practice this means that most items outside of substation fencing will not be insured.

##### **17.2 levels of reserves**

EA Networks holds no insurance reserves.

### *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**

No material errors have been identified.

|                |               |
|----------------|---------------|
| Company Name   | EA Networks   |
| For Year Ended | 31 March 2022 |

## 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 2.2.6.
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 2022-23 year. Costs have been prepared using 2022-23 values for labour, plant, and materials. Years after 2022-23 have been escalated by the “Half Year Economic and Fiscal Update 2021” CPI Forecast by the New Zealand Government Treasury published in December 2021. When the forecast ends, the final year CPI value has been used until the period end.

<https://www.treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2021>

*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 2022-23 year. Costs have been prepared using 2022-23 values for labour, plant, and materials. Years after 2022-23 have been escalated by the “Half Year Economic and Fiscal Update 2021” CPI Forecast by the New Zealand Government Treasury published in December 2021. When the forecast ends, the final year CPI value has been used until the period end.

<https://www.treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2021>

|                |               |
|----------------|---------------|
| Company Name   | EA Networks   |
| For Year Ended | 31 March 2022 |

## 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

#### **Schedule 5a(vi) (calculation of deferred tax)**

Row 66 The tax effect of other temporary differences.

Last year (2020-21) EA Networks made an early repayment on the new investment agreements of \$5.29M. Based on the information at hand when the 2020-21 disclosure was prepared the full \$5.29M was not included in the calculation of the deferred tax for the relevant year. After the disclosure was signed off, updated tax advice was received that the \$5.29M should be amortised over the remaining life of the new investment contract, therefore should be treated as a temporary difference. The impact of the change in tax treatment for the new investment contract on the 2020-21 ROI was assessed and deemed to be immaterially. The deferred tax position was updated in the current year to reflect the latest tax advice.

#### **Schedule 9a (asset registers)**

In prior years the requirement has been interpreted to mean all assets owned by the EDB, regardless of whether the item concern is currently being used to convey electricity or not. We have now changed the application of the interpretation to only include assets which are operating on the network.

The significant changes in schedule 9a relating to the change in approach.

Poles

| Asset category | Asset class                      | Units | Items at start of year (quantity) | Items at end of year (quantity) | Net change |
|----------------|----------------------------------|-------|-----------------------------------|---------------------------------|------------|
| Overhead Line  | Concrete poles / steel structure | No.   | 2,336                             | 2,252                           | ( 84 )     |
| Overhead Line  | Wood poles                       | No.   | 26,310                            | 25,187                          | (1,123)    |
| Subtotal       |                                  |       | 28,646                            | 27,439                          | (1,207)    |

927 poles were included in items at start of year (quantity) were in stock and is now excluded from the quantity at the end of the year.

#### Overhead conductor

| Asset category             | Asset class                | Units | Items at start of year (quantity) | Items at end of year (quantity) | Net change |
|----------------------------|----------------------------|-------|-----------------------------------|---------------------------------|------------|
| Zone substation switchgear | 33kV Switch (Pole Mounted) | No.   | 165                               | 135                             | (30)       |

All 30 items shown as net change represent 33kV Switch (Pole Mounted) 2nd hand items held in inventory.

#### Transformers

| Asset category           | Asset class                | Units | Items at start of year (quantity) | Items at end of year (quantity) | Net change |
|--------------------------|----------------------------|-------|-----------------------------------|---------------------------------|------------|
| Distribution Transformer | Pole Mounted Transformer   | No.   | 1,147                             | 4,614                           | 3,467      |
| Distribution Transformer | Ground Mounted Transformer | No.   | 6,093                             | 1,918                           | (4,175)    |
| Total                    |                            |       | 7,240                             | 6,532                           | (708)      |

A review of the distribution transformers identified several units which in prior years had been incorrectly recorded as 'ground mounted'. The transformers concerned should have been recorded 'as pole mounted'.

The change interpretation of the determination resulted in 735 units being excluded from the quantity count at the end of the financial year.