

Company Name	<u>Marlborough Lines Limited</u>
For Year Ended	<u>31 March 2018</u>

Schedule 14 Mandatory Explanatory Notes

1. This schedule requires EDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, and subclauses 2.5.1(1)(f), and 2.5.2(1)(e).
2. This schedule is mandatory—EDBs must provide the explanatory comment specified below, in accordance with clause 2.7.1. Information provided in boxes 1 to 12 of this schedule is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for EDBs to give additional explanation of disclosed information should they elect to do so.

Return on Investment (Schedule 2)

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

Box 1: Explanatory comment on return on investment

MLL achieved a post tax return on investment (ROI) of 1.64% and an ROI comparable to the vanilla WACC of 2.24%. These are both well below the mid-point regulated WACC of 5.04% and 5.60% respectively.

This low result is in part due to the manner in which the ROI is calculated, which treats posted discounts (such as MLLs) as a deduction to revenue (line charge revenue is net of discounts) whereas if our discount was discretionary, like many other EDBs in the industry, then the discount is not included in the calculation. If our discount was discretionary, rather than posted, then our ROI would have been 5.51% (post tax) or 6.10% (vanilla).

Schedule 2 (iii) has not been completed as the value of assets commissioned for 2018 is less than 10% of our total opening RAB value (IDD 2.3.3).

No items were reclassified in the disclosure year.

Regulatory Profit (Schedule 3)

5. In the box below, comment on regulatory profit for the disclosure year as disclosed in Schedule 3. This comment must include-

- 5.1 a description of material items included in other regulated income (other than gains / (losses) on asset disposals), as disclosed in 3(i) of Schedule 3
- 5.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

The operating surplus for 2018 of \$13.157m is above our 2017 result of \$11.591m largely as a result of the increased operating expenses as a result of the November 2016 earthquake and associated response included in the prior year.

The overall regulatory profit for 2018 of \$4.916m is down on our 2017 result of \$5.773m largely due to reduced revaluation income due to lower CPI in 2018.

Other regulated income includes:

- Capacity and development charges
- Recoveries from fault work
- Sales of scrap (relating to the disposal of assets from the RAB)

No items have been reclassified in the disclosure year.

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

No expenditure has been included in these information disclosure accounts.

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 has increased by \$0.4m during the disclosure year. This increase is below the previous year's increase, due to lower revaluation increase and an increase in disposed assets this year as the Company sold some surplus property that was previously acquired for network purposes.

No items were reclassified in the disclosure year.

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

- 8.1 Nil
- 8.2 Non deductible expenditure of \$64k
- 8.3 Nil
- 8.4 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 tax effect of temporary differences includes the following:

Decrease in employee provisions	(\$43k)
Increase in bad debts provisions	\$9k
Amortisation of capital contributions	\$48k
Deductible expenditure	(\$267k)

Related party transactions: disclosure of related party transactions (Schedule 5b)

10. In the box below, provide descriptions of related party transactions beyond those disclosed on Schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under subclause 2.3.6(1)(b).

Box 7: Related party transactions

No further related party transaction beyond those described in Schedule 5b.

Cost allocation (Schedule 5d)

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

Box 8: Cost allocation

Cost allocation is based on Marlborough Lines Contracting business unit being fully absorbed into the regulatory business as a consolidated group entity.

Non-directly attributable cost from the contracting business unit has been allocated to the regulatory business based on the proportion of labour used for that category of work.

No items have been reclassified in the disclosure year.

Asset allocation (Schedule 5e)

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

Box 9: Commentary on asset allocation

All costs incurred are directly attributable. All costs (time, plant and materials) are directly coded to the particular asset capital project and no cost allocation has taken place.

No items were reclassified in the disclosure year.

Capital Expenditure for the Disclosure Year (Schedule 6a)

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

Box 10: Explanation of capital expenditure for the disclosure year

No general threshold has been applied to identify which programme a capital job has been placed in, however each job has been looked at and placed in the programme or project that was the main driver for that project.

There have been no reclassifications in accordance with clause 2.7.1(2).

Operational Expenditure for the Disclosure Year (Schedule 6b)

14. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-
- 14.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b;
 - 14.2 Information on reclassified items in accordance with subclause 2.7.1(2);
 - 14.3 Commentary on any material atypical expenditure included in operational expenditure disclosed in Schedule 6b, 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

Asset replacement and renewal opex relates to where assets are replaced as part of a larger line asset, where the service potential is not improved. For example this may include items where crossarms are replaced but the pole is not.

There have been no reclassifications in accordance with clause 2.7.1(2).

There have been no items of atypical expenditure.

Variance between forecast and actual expenditure (Schedule 7)

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

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

Overall, total expenditure was greater than forecast by 9%. Expenditure on assets was 1% less than forecast, with operating expenditure 18% higher than that forecast.

Our capital and maintenance programme has been delivered close to budget this year and the operating expenditure variance largely relates to our forecast of non-network opex. This forecast has been revisited in the 2018 AMP to more accurately reflect the ongoing costs of the business.

No items have been reclassified in the disclosure year.

Information relating to revenues and quantities for the disclosure year

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

Box 13: Explanatory comment relating to revenue for the disclosure year

Line charge revenue for 2018 of \$35.902m (net of our posted discount of \$8.308m) is 1.8% above target revenue of \$35.260m as a result of improved volumes. Volumes are 1.1% greater than last year.

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

Unadjusted SAIDI for the year was 228 minutes, which includes 107 minutes related to a Transpower outage that affected the top of the South Island.

Normalised SAIDI for the year, once the Transpower outage is excluded, was 121 minutes for 2018 which is our lowest SAIDI result on record.

Normalised SAIFI of 1.09 is in line with our five year trend.

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

Insurance cover has been maintained across all aspects of the business.

The property insurance programme does not include cover subtransmission and distribution lines. In the prevailing insurance market conditions, coverage for subtransmission and distribution lines is difficult to obtain and very expensive.

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

There have been no amendments to previously disclosed information.

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For Year Ended	<u>31 March 2018</u>

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

Schedule 3: Line charge revenue has been calculated post discount. The discount amount is specified in Schedule 8(ii) at \$8.308m.

Schedule 4(vii) provides weighted average remaining lives as well as average expected total life. The required method of calculation weights the lives using the opening RAB value of the asset. As this value is a depreciated value it skews the weighted average remaining useful life towards the newer assets providing an indication that the overall network is much younger than it actually is. It is therefore not a good indicator of the average life of our network.