

Company Name	<u>Marlborough Lines</u>
For Year Ended	<u>2013</u>

## 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**

The line charge revenue has been calculated Post Discount. This then reflects in a lower regulatory profit that flows into the ROI calculation rather than having an after tax profit distribution.

### *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).

**Box 2: Explanatory comment on regulatory profit**

Other income includes \$261k sale of scrap, \$130k recoveries from fault work

*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**

No expenditure

*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)**

The RAB has increased from that previously disclosed. This is the result of changes in the rules as they apply to the 2004 valuation and changes in the roll forward methodology from 2009 onwards. MLL have not reclassified any items in accordance with clause 2.3.1.

*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**

8.2	Increase in employee provisions	\$16
	Increase in accrued provisions	\$8
	Non – deductible expenditure	\$10
	<b>Total</b>	<b>\$34</b>

*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)**

	Increase in employee provisions	\$5
	Increase in accrued provisions	\$2
	<b>Total</b>	<b>\$7</b>

*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**

Marlborough Lines management provide business support to related parties Nelson Electricity and OtagoNet due to the limited number of employees (NEL x4 and ONJV x0) respectively within each EDB.

*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**

Cost allocation is based on Marlborough Lines Contracting business unit being fully absorbed into the regulatory business. Non directly attributable cost from the contracting business unit have been allocated to the regulatory business based on the proportion of labour used for that category of work.

*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**

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.

*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**

No general threshold has been applied to identify which programme a capital job has been placed in, however each job has been looked out and place 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 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**

Service Interruptions and emergencies expenditure was down on previous year due to no major storm events.

Vegetation management expenditure was around last years levels, with the majority undertaken in rural, low consumer density areas.

The major programme of asset renewals was pole replacements

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

*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**

The forecast numbers were calculated in January 2012 under a different disclosure methodology. Not only have the rules changed, but the methods of allocating drivers to projects with more than one driver are different. Given a low number of high value projects, this has made a large difference to the value. Taking into account, the different basis for the values, the overall expenditure is consistent with the previously disclosed budget.

*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**

[Insert text here]

An estimate of revenue for the FY13 year was disclosed prior to 1 April 2012 in the MLL Pricing Methodology. This estimated revenue was \$37.168m calculated prior to deducting discounts. A forecast for posted discount of \$7.105m was published, prior to 1 April 2012, in the pricing schedule and therefore the equivalent estimate of target revenue was \$30.063m. The variation is 0.3% compared to the disclosed target revenue of \$30.102m. MLL views the difference as being within the normal variations that would occur when forecasting volumes. Volumes can be influenced by seasonal weather patterns and economic activity.

*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**

Great Result, combination of well targeted expenditure, stable weather, and no major events.

*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 transmission & distribution lines. In the prevailing insurance market conditions coverage for transmission and distribution lines is difficult to obtain, or very expensive.

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## 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**

A constant rate of 2.5% has been used. This was based on the Reserve Bank forecast at the time of writing the AMP.

*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**

A constant rate of 2.5% has been used. This was based on the Reserve Bank forecast at the time of writing the AMP.

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## Schedule 14b Mandatory Explanatory Notes on Transitional Financial 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 the transitional financial information disclosed in accordance with clause 2.12.1.
2. This Schedule is mandatory—EDBs must provide the explanatory comment specified below, in accordance with clause 2.12.1. This information is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. In the box below provide explanatory comment on the tax effect of other temporary differences for the years ending 31 March 2010, 31 March 2011 and 31 March 2012 (as reported in Schedule 5h(vii)).

**Box 1: Commentary on tax effect of other temporary differences (years ended 31 March 2010, 31 March 2011, and 31 March 2012)**

	2010	2011	2012
Change in Annual Leave Provision	-1	43	14
Change in Bad Debts Provision	16	12	-9
<b>Total Disclosed</b>	<b>15</b>	<b>55</b>	<b>5</b>

4. To the extent that any change in regulatory profit and ROI reported for 2013 (compared to that reported for 2012) is attributable to the change in treatment of related party transactions, provide an explanation of the change in the box below.

**Box 2: Change in regulatory profit and ROI due to change in treatment of related party transactions**

No change attributed to the treatment of related party transactions



5. 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) for disclosure years 2011 and 2012.

**Box 3: Commentary on asset allocation**

No items have been reclassified

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## 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**

The line charge revenue has been calculated Post Discount.