

Company Name	<u>Marlborough Lines Limited</u>
For Year Ended	<u>31 March 2016</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 1.7% and an ROI comparable to the vanilla WACC of 2.4%. These are both well below the mid-point regulated WACC of 5.4% and 6.0% 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 5.6% (post tax) or 6.2% (vanilla).

Schedule 2 (iii) has not been completed as the value of assets commissioned for 2016 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 2016 of \$14.740m is similar to our 2015 result of \$14.779m as no changes to our prices occurred on 1 April 2015 and our operating environment is similar.

The overall regulatory profit for 2016 of \$5.199m is up on our 2015 result of \$4.709m largely due to increased revaluations due to higher CPI than the 0.08% recorded in 2015.

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.

Any merger and acquisition costs related to MLLs acquisition of Yealands Wine Group is specifically excluded from these 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 \$3.7m during the disclosure year. This increase is comparable to previous year's increases, particularly once the fluctuating revaluation amounts are removed.

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 \$43k
- 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	(\$29k)
Decrease in bad debts provisions	(\$4k)
Amortisation of capital contributions	\$37k
Deductible expenditure	(\$279k)

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.

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, 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

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 varied from forecast by approximately 3%. Expenditure on assets was 5% less than forecast, with operating expenditure 11% higher than that forecast.

Forecast values for expenditure on assets are based on a defined list of projects. Due to reasons often outside of MLL control (weather events, delays in obtaining necessary stakeholder consent(s)) delays to system projects occur, and as such, the full suite of projects forecast for the financial year are generally not completed. Other factors, such as safety incidents, can lead to new projects being required to be completed at short notice – these are often not anticipated when the forecasts are done. An example of this was the undergrounding of overhead lines at Anakiwa Bay following the overhead lines being struck by a yacht. These of course take up resources and are at the expense of other forecast projects.

Operational expenditure was up on that forecast due largely to the actual spend on non-network operating expenditure. Over the year, MLL implemented a new asset and works management system. Operational expenditure associated with that was considerably higher than what was anticipated.

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

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 2016 of \$34.398m is within 1% of the target revenue of \$34.876m. Volumes are essentially flat on the previous year (up 0.1%).

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

Marlborough Lines has implemented a new outage management system during the year. The system is currently limited in its ability to meet the requirement of providing a complete audit trail of outage data for every single consumer. As a consequence, there is insufficient information to support the completeness and accuracy of recorded outages for the year.

Marlborough Lines is of the view that the outage information disclosed in Schedule 10 is accurate and will be working with our software provider to implement system changes so that the auditability of the data is improved.

Normalised SAIDI for the year was 124.2 minutes for 2016 an improvement on our 2015 result of 129.9 minutes.

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 and distribution lines. In the prevailing insurance market conditions coverage for transmission 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.

Company Name	<u>Marlborough Lines Limited</u>
For Year Ended	<u>31 March 2016</u>

Schedule 14a Mandatory Explanatory Notes on Forecast Information

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

Given the low level of inflation, the difference between nominal and constant was assessed at 1.5% for the 2015/16 year and 1.5% compounding for every year thereafter for the planning period.

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

Given the low level of inflation, the difference between nominal and constant was assessed at 1.5% for the 2015/16 year and 1.5% compounding for every year thereafter for the planning period.

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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 \$8.209m.

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.