Company Name	Vector gas distribution business
For Year Ended	30 June 2016

Schedule 14: Mandatory Explanatory Notes

1. This schedule requires GDBs 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)(e) and 2.5.2(1)(e).

2. This schedule is mandatory—GDBs 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 GDBs 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

On 20 April 2016 Vector sold its gas transmission and non-Auckland gas distribution businesses to First Gas. The RY2016 disclosure is therefore for the Auckland gas distribution network only.

The RY 2016 ROI of 7.14% is therefore not comparable with the comparative year ROI figures (RY 2014 and RY 2015), the 75th percentile vanilla WACC of 7.44% used for the first price reset, or the 2016 disclosure year 75th percentile vanilla WACC of 7.46%.

There has been no re-classification of items 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
There has been no re-classification of items in the disclosure year.

Merger and acquisition expenses (3(iv) of Schedule 3)

6. If the GDB 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 GDB.

Box 3: Explanatory comment on merger and acquisition expenditure
No merger and acquisition expenditure has been incurred during the disclosure year.

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)

There has been no re-classification of items in the disclosure year.

All comparative figures disclosed in Schedule 4 for 30 June 2015 and prior are the aggregated gas distribution values reported by Vector previously.

The opening value of the regulatory asset base (RAB) as at 01 July 2016 is the aggregated value for Auckland and non-Auckland gas distribution networks. An additional box (P12) has been added to schedule 4(i) to remove the opening 2016 RAB for the non-Auckland gas distribution network, then the adjusted opening 2016 RAB is rolled forward with allowance made for additions, disposals, depreciation and revaluation in accordance with the Gas Distribution Services Input Methodologies Determination 2012 (consolidated in 2015). The closing value of the RAB as at 30 June 2016 is therefore for the Auckland gas distribution network only.

All additional boxes (including N33, P33, M65, O65, M75, O75 and G106:P106) have been added to reflect to adjustments required as a result of the split of the Auckland and Non-Auckland gas distributions networks as a result of the sale to First Gas.

The additional box N51 has been added to show the adjustment resulting from asset allocation for the unallocated RAB due to Vector Limited shared corporate assets no longer being allocated to Non-Auckland gas distribution and gas transmission as a result of the sale.

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

There are no items in the disclosure year.

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)
Non-deductible movement of provisions and accruals $197k.

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(2)(b).

Box 7: Related party transactions
A detailed description of related party transactions has been disclosed in Schedule 5b. There have been no related party transactions within the disclosure year disclosed under clause 2.3.6 (2) (b).

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
There has been no re-classification of items in the disclosure year. ABAA (accounting-based allocation approach) has been applied in accordance with the IM determination, to allocate not directly attributable costs 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
There has been no re-classification of items in the disclosure year. Vector satisfies the thresholds in the IM determination to enable the application of ACAM to allocate not directly attributable fixed assets.

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
The materiality threshold applied to identify material projects and programmes is $2m, which is consistent with the audit materiality level. There has been no re-classification of items in the disclosure year.

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
There are no asset replacement or renewal costs included in Schedule 6b(i). There has been no re-classification of items in the disclosure year.

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

Expenditure in RY2016 was below forecast. The primary reason for this is that the forecasts were prepared for the combined Auckland and non-Auckland network, whilst the actual expenditure reported for RY2016 relates only to the Auckland network.

The RY2016 figures in Schedule 6a and 6b only relate to the Auckland gas distribution network. The figures disclosed in Schedule 11a and 11b from the 2015 AMP include both networks combined.

The actual operating expenditure for RY2016 for the Auckland network was materially consistent with the prior year. Capital expenditure on the Auckland network in RY2016 was higher than the prior year, largely driven by an increase in customer connection activity.

There has been no re-classification of items in the disclosure year.

Information relating to revenues and quantities for the disclosure year

16. In the box below, please explain reasons for any material differences between target revenue disclosed before the start of the pricing year in accordance with clause 2.4.1 and subclause 2.4.3(3), and total billed line charge revenue for the disclosure year as disclosed in Schedule 8.

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

Target revenue in Schedule 7(i) is revenue as previously disclosed under clause 2.4.3(3) of the ID determination and relates to the pricing year (ending 30 September) for the Auckland and non-Auckland networks. The target revenue is $79 million.

The total line charge revenue in Schedule 8 is revenue that relates to the disclosure year (ending 30 June) for the Auckland network only. The total line charge revenue is $52 million.

Target revenue and total line charge revenue differ because:

- The disclosure year and pricing year are different; and
- The reported networks are different

17. If price category codes or consumer groups (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of ICPs, quantities and revenues between consumer groups disclosed in Schedule 8.

Box 14: Explanatory comment relating to changed price category codes or consumer groups

The disclosure year referred to is the year ending 30 June 2016. During this period, prices changed on 1 October 2015. This price change included the introduction of a new price category 'GA05'.

This price category was made available to large industrial consumers on the GA04 price category and qualifying consumers with non-standard prices. Quantities and revenues are as billed and no allocations were made to the billed data.

Price category prior to 1 October 2015	Price category post 1 October 2015	Number of ICPs
GA04	GA05	7
Non-standard	GA05	11
	Total	18

Network Reliability for the Disclosure Year (Schedule 10a)

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

Box 15: Commentary on network reliability for the disclosure year

Vector's planned and unplanned SAIFI improved slightly when compared to the previous year. However planned and unplanned SAIDI (i.e. not caused by third party damage) increased when compared to the previous year.

The increase in planned SAIDI was due to a single event that resulted in an outage that affected a single customer for approximately 3 weeks and accounted for approximately 40% of the yearly total planned SAIDI result.

The increase in unplanned SAIDI was due to two events that occurred in August 2015 and January 2016 which resulted in outages affecting 29 and 15 customers respectively for approximately 2 hours and 2.5 hours respectively; this accounted for approximately 70% of the yearly total unplanned SAIDI result. There was a significant reduction in unplanned SAIDI caused by third party damage when compared to the previous year; this resulted in an overall improvement in Vector's SAIDI performance.

Insurance cover

19. In the box below, provide details of any insurance cover for the assets used to provide gas pipeline services, including-

    19.1 The GDB’s approaches and practices in regard to the insurance of assets, including the level of insurance;

    19.2 In respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 16: Explanation of insurance cover

Vector Limited takes insurance cover for a large number of group assets. These policies cover material damage, business interruption and contract works insurance.

In relation to the GDB these policies cover only the Auckland distribution networks gate stations and district pressure reducing stations. Vector self insures the remainder of the assets in the Gas Distribution Business.

Insurance costs are allocated to the GDB using the proportion these assets represent relative to Vector’s overall insured assets.

In respect of the insurance cover the information reflects “insurance years” running from 1 September to 31 August each year and premium costs are allocated to the appropriate regulatory years to derive the premium values.

Amendments to previously disclosed information

20. 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:

    20.1 a description of each error; and

    20.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

Box 17: Disclosure of amendment to previously disclosed information

No amendments are required.

Company Name Vector gas distribution business

For Year Ended 30 June 2016

Schedule 15: Voluntary Explanatory Notes

1. This schedule enable GDBs 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

On 20 April 2016 Vector sold its gas transmission and non-Auckland gas distribution businesses to First Gas.

The Commission has confirmed the approach for the preparation of the gas distribution information disclosures for the disclosure year 2016:

- One set of disclosures from Vector, for the whole 12 month period in relation to the Auckland gas distribution network;
- One set of disclosures from First Gas, for the whole 12 month period in relation to the non-Auckland gas distribution network;
- No adjustments to the disclosed comparatives that were published by Vector in 2015; and
- No adjustments to the forecast (from the published AMP) in Schedule 7.

Given the sale transactions the 2016 year may not necessarily be representative of forward looking opex and capex for the networks.