

## ELECTRICITY DISTRIBUTION INFORMATION DISCLOSURE FOR RELATED PARTY TRANSACTIONS FOR YEAR END 31 MARCH 2020

This section sets out Vector Electricity Distribution Business (Vector EDB)'s related party transactions for the disclosure year 2020 and Vector's approach to demonstrate these transactions have been valued in accordance with the arm's length valuation rules in line with the Electricity Distribution Information Disclosure Determination 2012 (ID) and the Electricity Distribution Input Methodologies Determination 2012 (IM).

In accordance with the ID, for the disclosure year 2020 Vector EDB is required to appoint an independent appraiser as the proportion of Vector EDB's total capital expenditure accounted for by related party transactions exceeds 65%. KPMG has been appointed as Vector EDB's independent appraiser to produce the independent report with respect to schedule 5b (related party transactions) for the 2020 disclosures.

This section is read in conjunction with the assurance opinion of the Independent Appraiser produced by KPMG.

### A. Related party relationship

In accordance with clause 2.3.8(1) and (2) of the ID, a description showing the connection between the Vector EDB and the related parties with which it has had related party transactions within the disclosure year 2020 and the principal activities of the related party is also disclosed below. The value of the related party transaction is disclosed in schedule 5b.

Related party	Relationship	Principal activities
Vector Communications Limited	a wholly owned subsidiary of Vector Limited	network communications services
Tree Scope Limited	an associate in which Vector Limited holds a 50% interest	vegetation management services
PowerSmart NZ Limited	a wholly owned subsidiary of Vector Limited	energy solutions services
Digital division	Unregulated part of Vector Limited	digital and technology services
Vector Technology Services Limited	a wholly owned subsidiary of Vector Limited	digital and technology services
Vector Auckland Property Limited	a wholly owned subsidiary of Vector Limited	asset management services
Vector Northern Property Limited	a wholly owned subsidiary of Vector Limited	asset management services

### B. Procurement policy

In accordance with clause 2.3.10 (1) of the ID, Vector publicly discloses a summary of its current policy in respect of the procurement of assets or goods or services from any related party.

Procurement policy summary

Vector’s procurement policy is to source, engage and manage suppliers in a professional and transparent manner within a consistent framework to achieve the best value for Vector.

Anyone procuring goods and services for Vector must apply the following principles:

Health & safety first	The health and safety of staff and suppliers must be taken into consideration when procuring goods and/or services.
Open and effective competition	Vector purchasing must be conducted in a manner that encourages competition amongst suppliers
Procurement from a related party	Vector will engage with suppliers including related parties in an open and transparent manner. Where a regulated part of the business transacts with a related party, the transaction must be valued on the basis it was conducted as an arm’s length transaction
Get the best deal for Vector	Making quality decisions that consider the life of the contract (or whole-of-life cost) not just selecting the lowest price
Play by the rules	Building trust and relationships with suppliers and keeping a reputation as a fair and transparent buyer
Be sustainable	Consider sustainability at every point in the procurement process to manage risk and consider opportunities to create positive social and environmental outcomes

Transactions between a regulated part of Vector and a related party must comply with regulatory requirements.

An objective and independent measure must be used to determine these transactions are valued at arm’s length. Possible measures include where:

- Third parties may purchase the same or substantially similar assets or services from the related party on substantially the same terms, including price; or
- The price paid by the regulated service is not substantially higher than
  - The observed market price; or
  - The cost incurred by the related party.

If these approaches (or similar) are not appropriate to determine the value of the transaction, an independent valuation report must be obtained.

### C. Practical application of the procurement policy and processes

*Clause 2.3.12(1) of the ID: description of how Vector EDB applies its current policy for the procurement of assets or goods or services from a related party in practice.*

Vector's procurement policy details the approaches that Vector EDB uses to procure goods and services from any party, whether they be related or not, and those approaches are summarised in section B above. Vector EDB purchases goods or services from a related party where the related party is the most appropriate party to deliver the service in light of expertise, cost and ability to meet network requirements. All related party transactions must be valued in line with the related party valuation rules set in the procurement policy.

*Clause 2.3.12(2) of the ID: description of policies or procedures that require the consumer to purchase goods or services from a related party.*

Vector EDB does not have any policies or procedures that require or have the effect of requiring a consumer to purchase assets or goods or services from a related party. For trimming trees around power lines, Vector EDB requires the consumer to use any approved arborist listed in Vector EDB's current vegetation management policy. Both Treescape and Asplundh are currently Vector EDB's approved arborists. Vector EDB undertakes the first cut at Vector EDB's own cost, while the subsequent trimming is at the consumer's cost.

### D. Arm's length test

*Clauses 2.3.12(3)-(5) of the ID: representative examples of how Vector's related party policy has been applied for the procurement of assets or goods or services and how and when arm's length terms were tested.*

Vector EDB relies on pricing comparisons to determine the arm's length value of transactions with its related party where comparable pricing is available. Otherwise, Vector EDB determines the value of these transactions based on an independent valuation report.

Vector EDB does not consider the procurement of assets or goods or services from a related party to differ significantly between expenditure categories. The table below provides representative examples of how Vector's related party policy has been applied in practice and when arm's length terms were tested.

Related party	Expenditure category (Opex / Capex)	Representative example	Valuation methodology	How and when arm's length terms last tested
Vector Communications Limited	Opex	Dark fibre connectivity to Vector's electricity network	Price comparison	Reviewed Vector Communications Limited's rate card showing pricing matches that offered to external customers. (tested on August 2020)
Vector Communications Limited	Capex	Right to use specific dark fibre assets to support Vector's electricity SCADA network	Independent market valuation	Due to the specialised nature of the transaction, there was an absence of public information about pricing and terms for similar transactions.

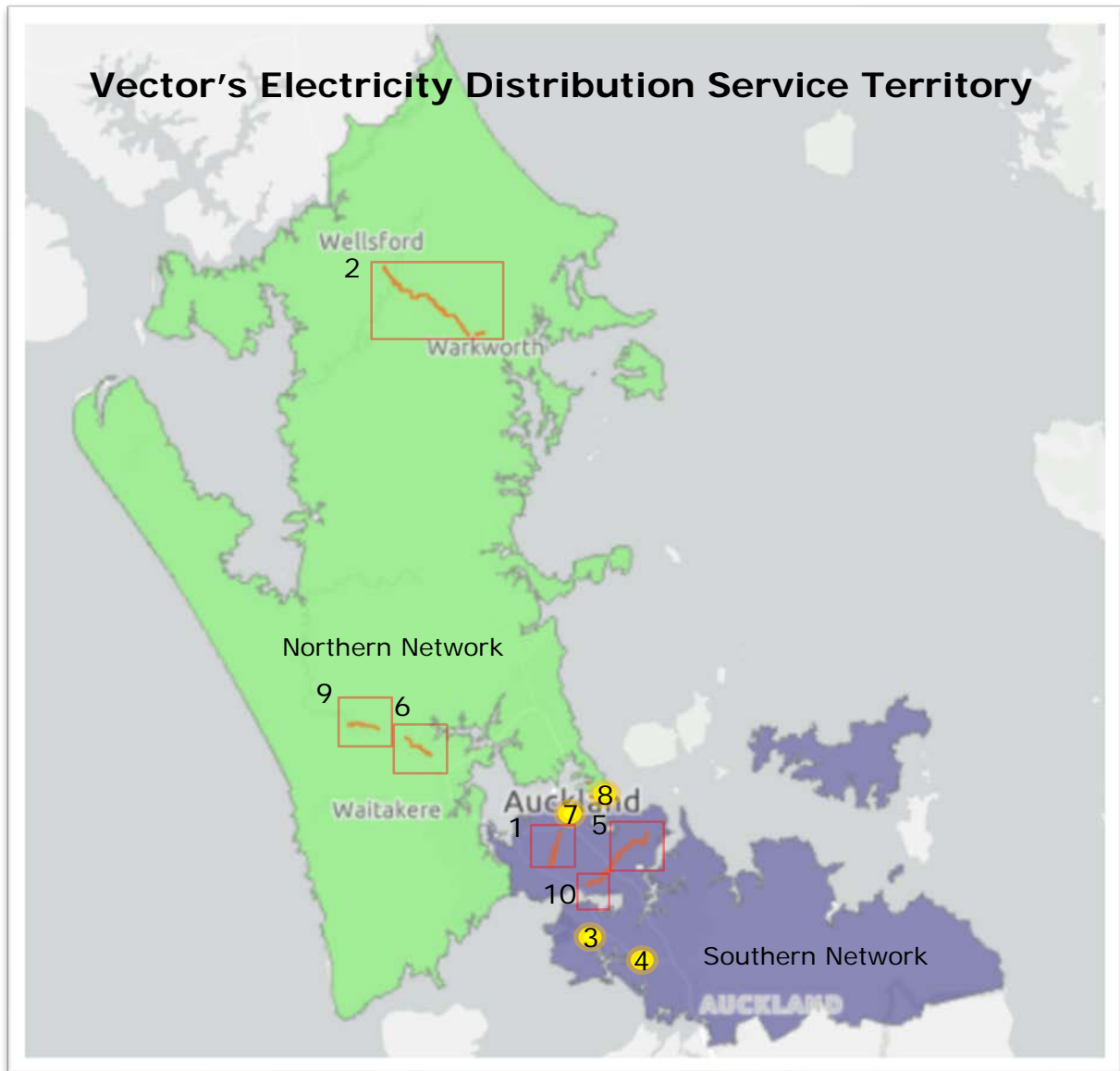
Related party	Expenditure category (Opex / Capex)	Representative example	Valuation methodology	How and when arm's length terms last tested
				<p>Accordingly, an independent benchmarking report was used to determine the market value of the transaction.</p> <p>The value of the right of use asset has been calculated in accordance to the IFRS16 methodology. Confirmed the lease agreement did not contain any unusual or uncommercial terms. (tested on August 2020)</p>
Tree Scape Limited	Opex	Vegetation trimming on the site of Beachlands and Maraetai feeder lines	Price comparison	<p>Reviewed Tree Scape Limited's rate card showing pricing matches that offered to external customers.</p> <p>Confirmed that the prices paid were consistent with those charged for similar services by an independent third party. (tested on May 2020)</p>
PowerSmart NZ Limited	Capex	Energy storage solution for Hobsonville Substation	Price comparison	<p>Reviewed PowerSmart's rate card to confirm similar margins to Vector's electricity network projects as external projects. (tested on July 2020)</p>
Digital division	Opex	Cyber security services to Vector's electricity network	Price comparison	<p>Engaged a third-party specialist to provide a comparable price for the services based on their international benchmarks. (tested on August 2020)</p>
Vector Auckland Property Limited (VAPL)	Capex	Right to use substation land and building	<p>Independent market valuation for the underlying capital value of the assets.</p> <p>Independent benchmarking report for the yield to determine the rental payments for the lease.</p>	<p>Due to the specialised nature of the transaction, there was an absence of public information about pricing and terms for similar transactions.</p> <p>There were three components to the calculation and arm's length testing that were used to determine the market value of the transaction.</p> <p>1) An independent market valuation was obtained to determine the market value of the assets sold to VAPL. This determined the capital value of the lease less any excess</p>

Related party	Expenditure category (Opex / Capex)	Representative example	Valuation methodology	How and when arm's length terms last tested
				<p>property assets that remained in VAPL.</p> <p>2) An independent benchmarking report from a property valuer to determine the yield applied to the capital value for the lease rental payments. The report also assessed whether the terms of the lease agreement were consistent with normal commercial terms for this type of transaction.</p> <p>3) Calculation of the value of the right of use asset using the IFRS16 methodology.</p> <p>Confirmed that the lease agreement did not contain unusual or uncommercial terms. (tested on August 2020)</p>
Vector Northern Property Limited	Capex	Right to use substation land and building	<p>Independent market valuation for the underlying capital value of the assets.</p> <p>Independent benchmarking report for the yield to determine the rental payments for the lease.</p>	<p>The methodology and arm's length testing approach is the same as that described for Vector Auckland Property Limited. (tested on August 2020)</p>
Vector Auckland Property Limited	Capex	Right to use tunnel infrastructure	<p>Independent market benchmarking reports for the determination of the underlying capital value of the assets.</p> <p>Price comparison based on an independent benchmarking</p>	<p>Due to the specialised nature of the transaction, there was an absence of public information about pricing and terms for similar transactions.</p> <p>There were three components to the calculation and arm's length testing that , were used to determine the market value of the transaction.</p> <p>1) Two independent market benchmark reports were obtained to determine the</p>

Related party	Expenditure category (Opex / Capex)	Representative example	Valuation methodology	How and when arm's length terms last tested
			<p>report and an existing third party transaction for the asset to assess the yield to determine the rental payments for the access right.</p>	<p>replacement costs in the market value calculation of the assets sold to VAPL. This determined the capital value of the access right less an existing third-party access right that remained in VAPL.</p> <p>2) An independent benchmarking report from a property valuer and comparison to an existing access right transaction with a third party were used to determine the yield applied to the capital value for the access right payments. Alignment with the existing third-party transaction determined that the terms of the lease agreement were consistent with normal commercial terms for this type of transaction.</p> <p>3) Calculation of the value of the right of use asset using the IFRS16 methodology</p> <p>Confirmed that the lease agreement did not contain unusual or uncommercial terms. (tested on August 2020)</p>

### E. Map of anticipated network expenditures and network constraints (not audited)

In accordance with clause 2.3.13 to 2.3.16 of the ID, the following map<sup>1</sup> and associated tables provide a brief explanatory description of the 10 largest forecast operational (Opex) and capital expenditure (Capex) programmes / projects in the AMP planning period, the likely timing, value and location of the projects and possible future network constraints. The Opex programmes are not location based and are not in response to a network or equipment constraint. Vector EDB refers to the 2019 AMP as it meets the definition of the AMP planning period for the disclosure year 2020. Further information is available in the annual AMP or AMP update available on the Vector’s website.<sup>2</sup>



<sup>1</sup> We have only disclosed network expenditures and network constraints, and excluded information of non-network projects.

<sup>2</sup> Website reference <https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/asset-management-plan>

Map reference	Top 10 Capex projects	Brief description	Likely location	Likely value of the project	Likely timing of the project	Clause 2.3.14 (a), (b) or (c) of the ID			Constraint alleviated
						(a) Whether the Capex is already subject to a contract and, if so, whether that contract is with a related party?	(b) Whether the Capex is forecast to require the supply of assets or goods or services by a related party?	(c) Whether the Capex is currently not indicated for supply by a related party?	
1	Auckland light rail project	Auckland light rail project requiring the relocation of assets as covered under the Electricity Acts	Central Auckland	\$85m	2021 to 2025 <sup>3</sup>	-	Yes <sup>4</sup>	-	Not applicable
2	SH1 Dome Valley future proof ducts	Installation of cable ducts along SH1 from Wellsford to Warkworth	SH1 route between Wellsford and Warkworth	\$22m	2020 to 2021	-	-	Yes	Overhead line subtransmission capacity constraints to Warkworth that will need augmentation within 5 to 10 years by the installation of subtransmission cables.
3	Mangere South Zone Substation	Establishment of Mangere South Zone Substation	Mangere South	\$17m	2025 to 2027	-	Yes <sup>4</sup>	-	Existing Zone Substation capacity constraints to supply new developments in the Airport industrial area as well as to offload Mangere West Zone Substation whose capacity is required for increasing Watercare demands.

<sup>3</sup> Timing of project is very uncertain due to recent government announcement in June 2020.

<sup>4</sup> There will be a small portion of the overall cost that is forecast to require the supply of services by a related party. It is not material.



Map reference	Top 10 Capex projects	Brief description	Likely location	Likely value of the project	Likely timing of the project	Clause 2.3.14 (a), (b) or (c) of the ID			Constraint alleviated
						(a) Whether the Capex is already subject to a contract and, if so, whether that contract is with a related party?	(b) Whether the Capex is forecast to require the supply of assets or goods or services by a related party?	(c) Whether the Capex is currently not indicated for supply by a related party?	
4	West Wiri Zone Substation	Establishment of West Wiri Zone Substation	West Wiri	\$12m	2020 to 2023	-	Yes <sup>4</sup>	-	Wiri Zone Substation capacity constraint and existing distribution network capacity constraints to meet committed new and future load in the area.
5	Glen Innes subtransmission cable replacement	Replacement of two aged subtransmission cables between Penrose GXP and Glenn Innes Zone Substation	Glen Innes	\$10m	2020	Yes <sup>4</sup>	Yes <sup>4</sup>	-	Not applicable
6	SH16 to Westgate road widening/safe roads	Relocation of assets, as covered under the Electricity Acts and Section 54 of the Government Rooding Powers Act, on SH16 towards Westgate as part of NZTA road widening/ safe roads project	Westgate	\$10m	Up to 2022	-	-	Yes	Not applicable

Map reference	Top 10 Capex projects	Brief description	Likely location	Likely value of the project	Likely timing of the project	Clause 2.3.14 (a), (b) or (c) of the ID			Constraint alleviated
						(a) Whether the Capex is already subject to a contract and, if so, whether that contract is with a related party?	(b) Whether the Capex is forecast to require the supply of assets or goods or services by a related party?	(c) Whether the Capex is currently not indicated for supply by a related party?	
7	Hobson 11kV switchboard replacement	Replacement of aged switchgear which has come to the end of its lifecycle	Auckland CBD	\$10m	Up to 2022	-	Yes <sup>4</sup>	-	Not applicable
8	Stanley Point Zone Substation	Establishment of a new Zone Substation to replace Ngataranga Bay Substation	Stanley Point	\$10m	2021 to 2023	-	Yes <sup>4</sup>	-	Not applicable
9	SH16 safe roads Huapai to Waimauku	Relocation of assets as required under the Electricity Acts due to an Auckland Transport project to make SH16 safer	SH16 route Huapai to Waimauku	\$10m	2020 to 2021	-	-	Yes	Not applicable
10	Onehunga subtransmission Cable replacement	Replacement of aged subtransmission cables between Penrose GXP and the Onehunga Zone Substation	Onehunga	\$9m	2020 to 2022	-	Yes <sup>4</sup>	-	Not applicable

Top 10 OPEX programmes	Brief description	Likely value of the project	Likely timing of the project	Clause 2.3.14 (a), (b) or (c) of the ID		
				(a) Whether the OPEX is already subject to a contract and, if so, whether that contract is with a related party?	(b) Whether the OPEX is forecast to require the supply of assets or goods or services by a related party?	(c) Whether the OPEX is currently not indicated for supply by a related party?
Routine and corrective maintenance	Planned maintenance of Vector's assets with work defined in our maintenance standards	\$16m p.a	Annual <sup>5</sup>	-	-	Yes <sup>7</sup>
Service interruptions and emergencies	Costs associated with the restoration of supply after an unplanned outage	\$14m p.a	Annual <sup>5</sup>	-	-	Yes <sup>7</sup>
Asset replacement and renewal	Remediation of defects usually identified through the planned maintenance process	\$14m p.a	Annual <sup>5</sup>	-	-	Yes <sup>7</sup>
Vegetation management	Programme that aims to minimise the annual risk of harm to public safety and network reliability from tree and branch failure	\$8m p.a	Annual <sup>5</sup>	Yes <sup>6</sup>	-	-
Pro-active acoustic detection technology	Pro-active acoustic detection to inspect outdoor zone substation switchyards, HV sub-transmission and distribution networks to identify incipient defects to mitigate SAIDI	\$8m	2020 to 2029	-	-	Yes <sup>7</sup>

<sup>5</sup> "Annual" refers to projected per annum value following Vector's June financial year.

<sup>6</sup> There is a part of the vegetation management programme that is contracted to a related party.

<sup>7</sup> There are existing master service agreements between Vector and non related parties for the identified operating expenditure programmes.

Top 10 OPEX programmes	Brief description	Likely value of the project	Likely timing of the project	Clause 2.3.14 (a), (b) or (c) of the ID		
				(a) Whether the OPEX is already subject to a contract and, if so, whether that contract is with a related party?	(b) Whether the OPEX is forecast to require the supply of assets or goods or services by a related party?	(c) Whether the OPEX is currently not indicated for supply by a related party?
CBD tunnel maintenance	CBD tunnel maintenance associated with CBD tunnel	\$4m	2020 to 2029	-	-	Yes
11kV cable testing (distribution)	Proactive program of work to test the condition of 11kv distribution cables as part of the replacement programme	\$4m	2020 to 2029	-	-	Yes
Subtransmission sheath remediation	Early identification and remediation of subtransmission cable sheath defects	\$2m	2020 to 2029	-	-	Yes
Thermal imaging	Pro-active thermal detection to inspect distribution cable terminations to identify incipient defects to mitigate SAIDI	\$1m	2020 to 2029	-	-	Yes
Preventative condition monitoring of Schneider GHA circuit breakers	Risk mitigation initiative due to known issues on critical sub-transmission switchgear. The additional testing will continue until the risk is acceptable	\$1m	2020 to 2029	-	-	Yes