



Independent Reasonable Assurance Report to the Directors of Vector Limited and the New Zealand Commerce Commission

Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects:

- The Schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10a(ii) and 14 (boxes 1 – 12) of the Vector Limited Gas Distribution Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the New Zealand Commerce Commission's Gas Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) and the related Reasons Paper and Input Methodologies (together 'the determination') for the year ended 30 June 2022; and
- Vector Limited's basis for valuation of related party transactions in the year ended 30 June 2022 has complied, in all material respects, with clause 2.3.6 of the Gas Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) and clauses 2.2.11(1)(g) and 2.2.11(5) of the related Input Methodologies.
- As far as appears from an examination of them, proper records to enable the complete and accurate compilation of the schedules for the year ended 30 June 2022 have been kept by Vector Limited; and
- As far as appears from an examination, the information used in the preparation of the schedules for the year ended 30 June 2022 has been properly extracted from Vector Limited's accounting and other records and has been sourced, where appropriate, from Vector Limited's financial and non-financial systems.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to Vector Limited's schedules for the regulatory year ended 30 June 2022.

Criteria

We have performed an engagement to provide reasonable assurance in relation to the schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10a(ii) and 14 (boxes 1 – 12) prepared in accordance with the determination for the year ended 30 June 2022.

Key assurance matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to Vector Limited's schedules for the year ended 30 June 2022. We summarise below those matters and our key procedures to address those matters in order that the directors of Vector Limited and the New Zealand Commerce Commission may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purpose of our opinion on the schedules as a whole and we do not express discrete opinions on separate elements of the schedules.

The key assurance matter

How the matter was addressed in our assurance

1. Capitalisation of assets into the regulatory assets base ('RAB'). Refer to Schedule 4 and Schedule 6a.

Capitalisation of assets into the RAB (capital expenditure during the year of \$12.0 million and assets commissioned of \$13.5 million) is a key assurance matter due to the following significant judgements involved:

- Assessment of whether an asset meets the definition of an asset under the determination; and
- Allocation of non-directly attributable assets to the gas distribution business. Specifically, this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

Our procedures included, amongst others:

- Examining the effectiveness of controls related to the approval of capital expenditure;
- Checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria in the determination;
- Comparing RAB assets commissioned to those commissioned for financial reporting purposes and obtaining explanation for any significant differences; and
- Examining and challenging the allocators used to allocate non-directly attributable assets into the RAB. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure.

2. Completeness and accuracy of SAIDI and SAIFI. Refer to Schedule 10a(ii).

The accuracy and completeness of SAIDI and SAIFI (620 interruptions in the period resulting in SAIDix1000 and SAIFix1000 of 952.04 and 6.46 respectively) is a key assurance matter due to the following factors:

- The complexity of the calculation of SAIDI and SAIFI which requires detailed information about each individual interruption, including the start time and restoration time for each affected connection; and
- The interruptions dataset is processed manually to calculate the SAIDI and SAIFI data presented in Schedule 10.

The procedures we performed to evaluate accuracy of the dataset used to calculate SAIDI and SAIFI included amongst others:

- Comparing the details of each interruption in the SAIDI and SAIFI dataset to the interruption records of Vector's external field service provider;
- Testing a sample of events for which field service provider records were not available by comparing the facts surrounding the events such as start time, number of customers affected and end time were consistent with the underlying books and records of Vector Limited; and
- Recalculating SAIDI and SAIFI according to the methodology of the Gas Information Disclosure determination.

The procedures we performed to evaluate completeness of the dataset used to calculate SAIDI and SAIFI included amongst others:

- Checking whether interruption events recorded in the media were appropriately recorded in the dataset;
- assessing the correct data was extracted from the underlying systems in order to prepare the schedule; and
- Performing data analysis to compare the recorded events to historic frequency and severity and obtaining explanations for significant differences.



The key assurance matter

How the matter was addressed in our assurance

3. Allocation of shared and other costs into operating expenditure. Refer to Schedule 5d and Schedule 6b.

The allocation of shared and other costs (\$6.3 million of non-directly attributable expenditure within the total of \$14.9 million of operating expenditure) into operating expenditure is a key assurance matter due to:

- The fact that Vector Limited operates across a number of businesses, both regulated services (electricity distribution and gas distribution) and non-regulated services. A number of operating costs can therefore be shared across these businesses; and
- Allocation of shared and other costs into the gas distribution business requires judgement. Specifically this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

The procedures we performed to evaluate the allocation of non-directly attributable costs included, amongst others:

- Examining and challenging the allocators used to record shared and other costs into operating expenditure. This included assessing whether the allocator is an appropriate reflection of the cause of the expenditure;
- Comparing the total amount of shared and other costs to that recorded for financial reporting purposes and assessing any significant differences; and
- Comparing shared and other costs to historic levels and our understanding of the current business model and strategy.

4. Valuation and identification of related party transactions Refer to Schedule 5b.

The valuation of transactions with related parties (\$0.46 million of purchases from related parties included in operating expenditures and \$2.3 million of gas distribution services sold to related parties) is a key assurance matter due to the significant judgement in forming a view of related party pricing in the absence, or insufficiency, of publicly available information about pricing and terms of certain transactions.

The identification of transactions with related parties is a key assurance matter because Vector Limited operate in a number of business areas which may give rise to related party transactions with the gas distribution business.

The procedures we performed to evaluate valuation of related party transactions included amongst others:

- Obtaining an understanding of Vector Limited's approach to identifying and valuing related party transactions in accordance with the determination;
- Comparing the value of each transaction with the price paid by or paid to the Vector Gas Distribution business;
- where available, comparing the value of each transaction to at least one of the following:
 - the standard price list or standard rates obtained directly from the related party;
 - the observed market price for similar goods or services; or
- an independent market valuation.

The procedures we performed to evaluate completeness of related party transactions included:

- Challenging whether all related party transactions had been included by comparing to our understanding of Vector Limited's operating model; and
- Assessing whether all related party transactions recorded for financial reporting purposes had been correctly identified and disclosed.



Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and non-compliance and plan and perform the engagement to obtain reasonable assurance that the schedules are free from material misstatement and non-compliance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement and non-compliance

Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement or non-compliance when it exists.

Misstatements, including omissions, within the schedules and non-compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the schedules.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the year ended 30 June 2022 does not provide assurance on whether compliance with the determination will continue in the future.

Use of this assurance report

Our report is made solely for the directors of Vector Limited. Our assurance work has been undertaken so that we might state to the directors of Vector Limited those matters we are required to state to them in the assurance report and for no other purpose. We have also consented to the New Zealand Commerce Commission receiving a copy of our report on a reliance basis. No other third party is intended to receive our report.

Our report should not be regarded as suitable to be used or relied on by any third parties other than Vector Limited and the New Zealand Commerce Commission for any purpose or in any context. Any other party who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

Our report is released to Vector Limited and the New Zealand Commerce Commission on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

To the fullest extent permitted by law, none of KPMG, any entities directly or indirectly controlled by KPMG or any of their respective members or employees accept or assumes any responsibility and deny all liability to any party other than the directors of Vector Limited for our work, for this independent reasonable assurance report, and/or for the opinions we have reached.

Vector Limited's responsibility for the schedules

The directors of the Vector Limited are responsible for the preparation and presentation of the schedules in accordance with the determination, which the directors have determined to meet the needs of the New Zealand Commerce Commission. This responsibility includes such internal control as the directors of Vector Limited determine is necessary to enable compliance, to monitor ongoing compliance and to enable the preparation of the schedules that are free from material misstatement and non-compliance whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the directors of Vector Limited on whether for the year ended 30 June 2022:

- the preparation of the schedules are, in all material respects, in accordance with the determination;



- Vector Limited's basis for valuation of related party transactions has complied, in all material respects, with the determination;
- As far as appears from an examination of them, in all material respects, proper records to enable the complete and accurate compilation of the schedules have been kept by Vector Limited; and
- As far as appears from an examination, in all material respects, the information used in the preparation of the schedules has been properly extracted from Vector Limited's accounting and other records and has been sourced, where appropriate, from Vector Limited's financial and non-financial systems.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to Vector Limited such as the annual audit and half-yearly review of the financial statements, regulatory assurance services, other assurance services, enterprise risk management coaching and compliance services in relation to R&D tax credits. Subject to certain restrictions, partners and employees of our firm may also deal with the Vector Limited on normal terms within the ordinary course of trading activities of the business of the Vector Limited. These matters have not impaired our independence as assurance providers of the Vector Limited for this engagement. The firm has no other relationship with, or interest in, the Vector Limited.

A handwritten version of the KPMG logo in blue ink, appearing as a signature or stamp.

KPMG
Auckland

5 December 2022