Company Name	Vector
For Year Ended	31 March 2023

Schedule 14 Mandatory Explanatory Notes

(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Electricity Distribution Information Disclosure Determination 2012 – as amended and consolidated 6 July 2023. Clause references in this template are to that determination)

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 11 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

The return on investment (ROI) comparable to a vanilla WACC for Vector's Electricity Distribution Business is 8.88%. This is higher than the 67^{th} percentile vanilla WACC of 4.57%, due to higher actual revaluation rate.

Actual CPI for RY23 was 6.6% which was higher than the Commission's forecast of 2%. This increases the ROI by 4.6%.

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).

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Box 2: Explanatory comment on regulatory profit
The value of "other regulated income (other than gains/ (losses) on asset disposals)" is zero. There has been no re-classification of items 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 merger or acquisition expenditure has been incurred during the disclosure year. There has been no re-classification of items in 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)

Roll forward of regulatory asset base (RAB)

The value of the RAB has been determined by rolling forward the initial RAB with allowances made for additions, disposals, depreciation and revaluation in accordance with the current IM determination.

Reclassified items

In the 2023 disclosure year, Vector went live with the 'ERAB', being the Electricity RAB dataset within SAP. As part of the reconciliation between ERAB and the manual RAB dataset, a number of assets, in particular $90 million of poles assets, that were sitting within the "Distributions and LV cables" category, has been reclassified as the "Distribution and LV lines" category.

Unallocated RAB roll forward

A box "Adjustment to opening RAB value" was added to section 4(ii) this year to adjust the unallocated opening RAB values of those directly attributable unregulated assets from the previous disclosure year that are shared with the Electricity business in the 2023 disclosure year. As a result, $1.4m was adjusted from the unallocated opening RAB.

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 material 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)
There are no material items in the disclosure year.

Cost allocation (Schedule 5d)

10. 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 7: Cost allocation

There has been no re-classification of items in relation to cost allocation in the disclosure year.

The accounting-based allocation approach (ABAA) has been applied to allocate not directly attributable costs in the disclosure year in accordance with the IM determination.

The "Property, Plant and Equipment (PPE)" asset and labour hours allocators are the key proxy allocators used to allocate not directly attributable corporate shared costs as causal factors are not available. A causal relationship cannot be established for the non-directly attributable costs because of the shared nature of these services. This means there is no single cost driver leading to a cost being incurred.

<u>Labour hours</u>
Vector has undertaken a survey of estimated time spent on regulatory activities for the purpose of regulatory cost allocation. Not all shared service functions are able to estimate time spent servicing each business due to their activities being ever changing or because activities are primarily provided on a group only basis.

<u>PPE</u>
A significant proportion of Vector's activities are focused on managing physical assets. Therefore, an assumption can be made that the greater the amount of physical assets a business has (measured by value), the greater share of corporate shared costs are required to support that business.

The rationale behind the use of each proxy allocation is based on a thoughtful analysis of each cost item.

Asset allocation (Schedule 5e)

11. 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 8: Commentary on asset allocation

Consistent with cost allocation, Vector applied ABAA to allocate non-directly attributable network asset values in the 2023 disclosure year in accordance with the IM determination. Vector has determined and reported two allocators for shared network assets: a fair value ratio and a capacity ratio. The fair value ratio is determined by reference to an estimated fair value of the non-directly attributable portion of a shared network asset. The capacity ratio is an engineering-based ratio by reference to an asset's total service capacity. Determining which allocator to use involves an understanding of the nature of the shared network asset and the substance of the non-electricity distribution services that the asset provides. These allocators are proxy allocators. A causal relationship sometimes cannot be established for the non-directly attributable network asset values because the shared nature of these assets means there is no single factor influencing the utilisation of the asset.

Determining the non-network fixed assets for the regulated and non-regulated businesses follows a similar process to the operating cost allocation.

There have been no material changes in asset allocations in the disclosure year.

Capital Expenditure for the Disclosure Year (Schedule 6a)

12. In the box below, comment on expenditure on assets for the disclosure year, as disclosed in Schedule 6a. This comment must include-

    12.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;

    12.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 9: Explanation of capital expenditure for the disclosure year

The materiality threshold applied to identify material projects is the level of audit materiality applied by Vector's regulatory auditors ($9.1m).

There were no material projects or programmes in the disclosure year.

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

Operational Expenditure for the Disclosure Year (Schedule 6b)

13. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-

    13.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b;

    13.2 Information on reclassified items in accordance with subclause 2.7.1(2);

13.3 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 10: Explanation of operational expenditure for the disclosure year
<u>Asset Replacement and renewal operational expenditure</u> is largely incurred to rectify non-compliance with maintenance standards as identified from planned equipment inspections. This expenditure includes the replacement of equipment components that do not extend the life of the asset. The major spend areas are maintenance on zone substations, subtransmission cables, and overhead lines. <u>Reclassified items</u> There has been no material re-classification of items in the disclosure year. <u>Atypical Expenditure</u> There was no atypical expenditure during the disclosure year which exceeded our materiality threshold, as described above.

Variance between forecast and actual expenditure (Schedule 7)

14. 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 11: Explanatory comment on variance in actual to forecast expenditure

CAPEX

Overall actual CAPEX expenditure was 10%, $42m below forecast at $371m with the key drivers being:

- Consumer connections were 45%, $40m above forecast due to higher service connections and residential subdivisions than forecasted.
- System growth was 38%, $28m below forecast, mainly due to the reclassification of distribution transformers from consumer connection.
- Asset replacement and renewal was 20%, $25m above forecast, due to higher reactive works including storm response and the distribution asset replacement programme, and some capex being reclassified from other reliability, safety, and environment.
- Asset Relocations were 28% or $10m below forecast, this was third party driven.
- Other reliability, safety and environment was 89% or $24m below forecast, due to some capex being reclassified as asset replacement and renewal, and expenditure being less than forecasted for conductor renewal programme.
- Non-Network was 67% or $45m below forecast, mainly due to reduced property costs attributed to changes in lease term length and lower digital costs compared to what was projected.

OPEX

Overall actual OPEX expenditure was 2% or $3m above forecast with key drivers being:

- Service interruptions and emergencies were 47%, $7m above forecast largely driven by higher exceptional remedial maintenance due to severe weather events (January 2023 flooding and the February 2023 Cyclone).
- Vegetation management was 10%, $0.5m above forecast due to Cyclone Gabrielle related vegetation work.
- Routine and corrective maintenance and inspection was 3%, $0.5m below forecast due to severe weather disruptions including January 2023 flooding and the February 2023 Cyclone, impacting planned maintenance works.
- Asset replacement and renewal was 31%, $5m below forecast, due to a decrease in corrective maintenance activities due to resources being diverted to severe weather response.
- System operations and network support was 10%, $4m below forecast, due to lower third-party services and personal costs.
- Business support was 13%, $5m, above forecast, mainly due to higher computer costs and professional fees

Information relating to revenues and quantities for the disclosure year

15. In the box below provide-

15.1 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

15.2 explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue.

Box 12: Explanatory comment relating to revenue for the disclosure year
Vector's target revenue for the year ended on 31 March 2023, as included in our 2023 Electricity Pricing Methodology Disclosure pursuant to clause 2.4.1(1) and 2.4.3(3) of the electricity Distribution Information Disclosure Determination 2012, was $625m. Total billed line charge revenue for the disclosure year ended on 31 March 2023 was $613m, as disclosed in schedule 8 of this disclosure. The variance between total billed line charges and target revenue of approximately $12m or 2% is mainly due to lower quantities resulting from warmer than average weather.

Network Reliability for the Disclosure Year (Schedule 10)

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

Box 13: Commentary on network reliability for the disclosure year
The values of both SAIDI and SAIFI in RY23 were higher compared with last year, due to higher unplanned interruptions driven by severe weather events including January 2023 flooding and February 2023 Cyclone. The three primary contributing causes leading to increased unplanned interruptions from the start of the Auckland floods to the end of the Cyclone Gabrielle response period (being 26 January to 3 March) are vegetation, defective equipment, and unknown (transient faults), exceeding double the count compared to the previous year. In regard to the classification of events as defective equipment, the majority of these occurred during and after the Auckland floods and Cyclone Gabrielle. During this time our assets were under duress from the severe weather, and fault restoration was impacted by access difficulties, as detailed in Vector's supplementary unplanned interruptions reporting for the 2023 disclosure year. Vector's approach to weather events to mitigate the impact and prevent them in future was disclosed in Vector's Electricity Compliance Statement and its supplementary unplanned interruptions reporting for the 2023 disclosure year, available at https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/price-quality-path. Please refer to Schedule 15 for explanations of differences to the Electricity Compliance Statement.

Insurance cover

17. In the box below, provide details of any insurance cover for the assets used to provide electricity distribution services, including-

    17.1 The EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;

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

Box 14: Explanation of insurance cover
Vector Limited takes insurance cover for group assets. These policies cover material damage, business interruption and contract work insurance. Insurance costs are allocated to the Electricity Distribution Business 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

18. 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:

    18.1 a description of each error; and

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

Box 15: Disclosure of amendment to previously disclosed information
N/A

Company Name Vector

For Year Ended 31 March 2023

Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018.)

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

The opening deferred tax balance under clause 2.3.7(1)(c) of Electricity Distribution Services Input Methodologies Determination 2012 (IMs)

Vector provided an explanation last year of how the opening deferred tax balance under GAAP is treated for assets with no regulatory tax asset value.

The difference between the closing deferred tax balance reported in RY22 and the opening deferred tax balance in RY23 is the tax effect of 2022's ROU commissioned assets due to the adoption of NZ IFRS 16 Leases.

"Net recoverable costs allowed under incremental rolling incentive scheme" under schedules 2

The "net incremental rolling incentive scheme (IRIS)" as defined in the current IDs is the sum of previous years' incremental gain/loss from the five disclosure years preceding the current disclosure year. The IRIS disclosure in schedule 3 only applies to customised price-quality paths, and not default price-quality paths (DPP). At the time the IRIS was introduced, the Commission had not established an approach for setting expenditure baselines under DPP.

For EDBs under the DPP, the Commission has implemented a new IRIS calculation under the IMs' amendments for all disclosure years commencing after 1 April 2020. Since the Commission has not updated the Microsoft Excel template to reflect this change, Vector discloses its IRIS in the "Other financial incentives" under Schedule 2 for disclosure year 2023.

Normalised SAIFI and SAIDI in Schedule 10

The disclosed SAIDI and SAIFI values under the current ID requirements are not aligned with those presented in Vector's 2023 Compliance Statement, which is based on the Electricity Default Price-Quality Path Determination 2020 (DPP3). The methodologies and formulae for ID and DPP3 are not comparable. The SAIDI and SAIFI values under DPP3 can be found here on Vector's website https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/price-quality-path.

Energy efficiency and demand side management, reduction of energy losses (when known) in Schedules 6a and 6b

Vector has improved the efficient provision of electricity line services by
(a) improving energy efficiency
(b) encouraging demand side management
(c) implementing initiatives that reduce electricity losses
(d) implementing initiatives that reduce reactive power flows in the network

However, the costs have been included under other categories which are the primary driver of Vector performing the work. Therefore, the values of "Energy efficiency and demand side management, reduction of energy losses" are zero in Schedules 6a (ii) and

6b (ii) as the data is not recorded in a way where it can be separately reported from our financial systems.