

Company Name	Vector
For Year Ended	30 June 2024

Schedule 14 Mandatory Explanatory Notes

(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)

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 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 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

The ROI for regulatory year (RY) 2024 is 6.82%, which is lower than the ROI for RY 2023, which was 9.24%. This decrease is mainly due to the higher amount of accelerated depreciation applied in RY 2024, the second reporting year of the new Default Price-Quality Path (DPP), and a lower revaluation rate of 3.3% compared to 6% in RY 2023.

The ROI for RY 2024 is higher than the 67th percentile vanilla WACC of 6.14%, which is used for the price reset. This is because the actual revaluation rate (3.3%) is higher than the DPP forecast of 2.60%.

There has been no re-classification of material 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.

The value of “other regulated income (other than gains / (losses) on asset disposals)” is nil.

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.

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)

The value of the regulatory asset base has been determined by rolling forward the initial regulatory asset base with allowance made for commissioned assets, disposals, depreciation and revaluation in accordance with the Gas Distribution Services Input Methodologies Determination 2022 and its 2023 amendment.

Unallocated RAB roll forward

A box "Adjustment to opening RAB value" has been added to Schedule 4(ii) to reconcile the unallocated opening RAB values from the previous disclosure year with our recording database due to the change of asset allocation. As a result, an adjustment of \$0.04 million was made to the unallocated opening RAB, which was deemed immaterial.

Accelerated depreciation

To establish the price-paths for the gas pipeline business from RY2023 to RY2026, the Commission has applied asset adjustment factors to shorten the asset lives. Accordingly, Vector must comply with two criteria when preparing the gas information disclosures. The closing RAB value for existing assets, that is used for the accelerated depreciation calculation, is the base year 30 June 2021.

- Establishing an adjusted asset life of 20.57 for RY2023 for existing assets
- Maintain an accumulated forecast depreciation of \$94.02m for existing assets for the period RY2023 to RY2026

Schedule 4 reports a total depreciation of \$25 million for RY2024, with \$23 million attributed to existing assets. This figure is very consistent with the forecasted depreciation of \$23 million as per the DPP modelling for RY2024.

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 amounts.

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 requiring disclosure in accordance with paragraph 9 above.

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 current 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 the cost being incurred.

Labour hours

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, for these costs a PPE allocator is used.

PPE

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 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

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

Vector applied the ABAA to allocate non-directly attributable corporate shared asset values in the disclosure year in accordance with the current IM determination. The PPE asset allocator is the key proxy allocator.

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

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 and programmes is \$2m, which is consistent with the audit materiality level. There are no projects that have exceeded this level of materiality.

There have been no material reclassified items.

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, 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

There are no asset replacement or renewal costs included in Sch 6b(i).

There was no atypical expenditure during the period which exceeded the materiality threshold.

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

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

The overall expenditure on assets decreased by \$2.5m, which is 10% lower than the forecast.

- Consumer connection decreased by \$1.0m, or 9%, due to a reduction of residential connections
- System growth decreased by \$0.7m, or 89%, due to the lack of new network constraints, which resulted from lower customer demand
- Asset relocations decreased by \$1.2m, or 36%, driven by third party factors
- Total reliability, safety and environment increased by \$0.6m, or 107%, primarily due to a greater need for isolation valve replacements and safety and compliance replacements than initially forecasted.
- Non-network expenditure decreased by \$0.2m, or 6%, due to reduced property costs

OPEX

Actual operational expenditure closely aligned with the forecast, at \$17 m.

Information relating to revenues and quantities for the disclosure year

15. 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 12: 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 gas distribution network. The target revenue is \$63m.

The total line charge revenue in Schedule 8 relates to the disclosure year (ending 30 June) for the gas distribution network. The total line charge revenue is \$63m.

16. 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 ICs, quantities and revenues between consumer groups disclosed in Schedule 8.

Box 13: Explanatory comment relating to changed price category codes or consumer groups

This disclosure year referred to is the year ending 30 June 2024. During this period, prices changed on 1 October 2023. There were no changes to price category codes or consumer groups as part of this price change.

Network Reliability for the Disclosure Year (Schedule 10a)

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

Box 14: Commentary on network reliability for the disclosure year

	Ry24	Ry23	% Var
Planned interruptions on the network	734	418	76%
Unplanned interruptions on the network	50	170	-71%
Unplanned interruptions caused by 3rd party damage	118	193	-38%
Total	902	781	15%

Planned and unplanned interruptions on the network

Planned interruptions increased due to riser valve replacements during smart meter installations and enhanced inspections, including leakage and riser surveys, for earlier fault detection. On the other hand, these measures resulted in fewer unplanned interruptions.

Insurance cover

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

- 18.1 The GDB's approaches and practices in regard to the insurance of assets, 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

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 gas distribution network gate stations and district pressure reducing stations. Vector self insures the remainder of the assets. 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

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

No amendments are required.

Company Name	Vector
For Year Ended	30 June 2024

Schedule 15: Voluntary Explanatory Notes

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

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

N/A