



**Annual Price Review
Gas distribution network**

From 1 October 2014

Pursuant to:
The Gas Distribution
Information Disclosure Determination 2012

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1. PURPOSE OF THIS DOCUMENT

This document contains information to help you understand how Vector determines its gas distribution prices. In this document, we:

1. Give you information about us and what we do;
2. Describe how we set our gas distribution prices;
3. Provide explanations and reasons for the changes in gas distribution prices;
4. Include our price schedules with our new prices and eligibility criteria; and
5. Provide tables comparing our prices before and after the 1 October 2014 price change.

We believe in transparency and hope you find this information useful. You can find more detailed information about our price methodology on our website at:

<http://vector.co.nz/pricing-methodology>.

Or if you need more information, you can give us a call at 0508 VECTOR (0508 832 867) and we'll do our best to answer your questions.

2. ABOUT VECTOR

Vector is a leading New Zealand infrastructure group. We own and manage a unique portfolio of energy and fibre optic infrastructure networks in New Zealand.

Our assets perform a key role in delivering energy and communication services to more than one million homes and businesses across New Zealand. We are a significant provider of:

- Electricity distribution services;
- Gas transmission and distribution services;
- Electricity and gas metering installations and data management services;
- Natural gas and LPG, including 60.25% ownership of bulk LPG distributor Liquigas; and
- Fibre optic networks in Auckland and Wellington, delivering high speed broadband services.

In addition to our energy and fibre optic businesses we own:

- A 50% share in Treescape, an arboriculture and vegetation management company; and
- A 22.11% share in NZ Windfarms, a power generation company.

Vector is listed on the New Zealand Stock Exchange. Our majority shareholder, with a shareholding of 75.1%, is the Auckland Energy Consumer Trust (AECT). The balance of Vector's shares are held by individual and institutional shareholders. The AECT represents its income beneficiaries, who are consumers connected to Vector's electricity distribution network in the area covered by the Trust district. The Trust district includes Auckland, Manukau and parts of the Papakura region. For more information on the AECT visit their website at www.aect.co.nz.

Vector owns and operates over 7,000 kilometres of natural gas distribution networks in over 30 towns and cities across the North Island and supply gas to approximately 160,000 domestic and business customers.

OPERATING STATISTICS

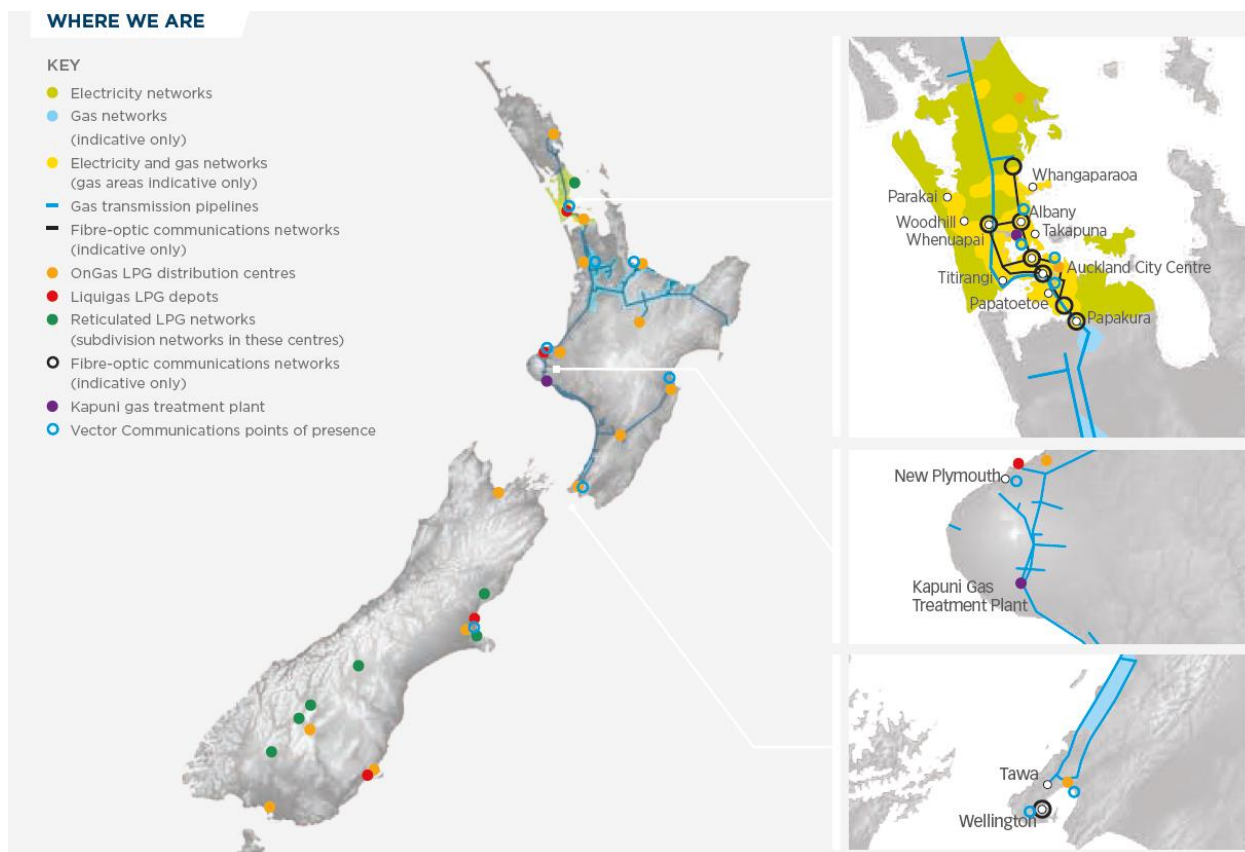
| Year ended 30 June | 2014 | 2013 |
|---|---------|---------|
| ELECTRICITY | | |
| Customers ^{1,4} | 543,953 | 539,232 |
| Net movement in customers ² | 4,721 | 4,004 |
| Volume distributed (GWh) | 8,252 | 8,332 |
| Networks length (km) ¹ | 18,021 | 17,865 |
| SAIDI (minutes) ³ | | |
| Normal operations | 141.3 | 95.8 |
| Extreme events | 9.6 | 0.0 |
| Total | 150.9 | 95.8 |
| GAS TRANSPORTATION | | |
| Distribution customers ^{1,4} | 159,738 | 156,952 |
| Net movement in distribution customers ² | 2,786 | 2,303 |

| Year ended 30 June | 2014 | 2013 |
|---|---------|---------|
| Distribution volume (PJ) | 21.9 | 21.4 |
| Transmission volume (PJ) ⁵ | 111.3 | 118.2 |
| GAS WHOLESALE | | |
| Natural gas sales (PJ) ⁶ | 24.5 | 26.5 |
| Gas liquids sales (tonnes) ⁷ | 71,000 | 71,757 |
| Liquigas LPG tolling (tonnes) ⁸ | 178,510 | 151,544 |
| TECHNOLOGY | | |
| Electricity: smart meters ¹ | 675,555 | 505,888 |
| Electricity: legacy meters ¹ | 202,561 | 269,289 |
| Electricity: prepay meters ¹ | 4,527 | 4,851 |
| Electricity: time-of-use meters ¹ | 11,276 | 11,039 |
| Gas meters ¹ | 211,741 | 215,948 |
| Data management services connections ¹ | 8,227 | 8,123 |

1. As at 30 June 2. The net number of customers added during the year 3. Regulatory year 12 months to 31 March
4. Billable ICPs 5. Based on billable volumes 6. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages 7. Total of retail and wholesale LPG and natural gasoline
8. Includes product tolled in Taranaki and further tolled in the South Island

WHERE WE ARE

- KEY**
- Electricity networks
 - Gas networks (indicative only)
 - Electricity and gas networks (gas areas indicative only)
 - Gas transmission pipelines
 - Fibre-optic communications networks (indicative only)
 - OnGas LPG distribution centres
 - Liquigas LPG depots
 - Reticulated LPG networks (subdivision networks in these centres)
 - Fibre-optic communications networks (indicative only)
 - Kapuni gas treatment plant
 - Vector Communications points of presence



3. HOW WE SET PRICES

Vector generally recovers the cost of owning and operating our network through gas distribution prices, including published standard prices or in a limited number of circumstances, non-standard prices.

The revenue from Vector's gas distribution prices is regulated by the Commerce Commission. Vector is able to determine how to recover this revenue through our prices

subject to a number of regulated pricing principles. We go into how we comply with these principles in some detail in our pricing methodology disclosure available on our website¹.

A key feature of a gas distribution system is that it is a network of interconnected assets. Many consumers on the network share assets and it is often difficult to identify precisely who benefits from which assets, for example, there are not purely “industrial zones” or “residential zones”. This intermingling of consumers means that there are substantial common costs. A large proportion of the prices paid by consumers are a recovery of common costs rather than being directly attributable to the provision of a specific service to that consumer.

The most significant cost element reflected in Vector’s distribution prices relates to physical gas distribution assets. These assets are about halfway through their useful life, meaning their value is also about half that of equivalent new assets. This means that Vector’s distribution prices are lower than they would be if the assets were new. To send the right signals to consumers to ensure new investments in the network are as efficient as possible, consumers need to be charged for the full or proportionate cost of those assets (new and existing) they will be using.

To recognise the key differences in the use and cost of our network, we separate consumer connections into the following segments for pricing²:

- Residential consumers;
- Business consumers – Less than or equal to 10 scm/h³;
- Small commercial consumers – Greater than 10scm/h and less than or equal to 40scm/h;
- Large commercial consumers – Greater than 40scm/h and less than or equal to 200scm/h;
- Industrial consumers – Greater than 200 scm/h; and
- Non-standard consumers.

To determine the amount of regulated revenue to recover from each consumer segment, Vector considers each segment’s use of Vector’s gas distribution network assets. Revenue is then recovered from each segment in relation to that segment’s use of the distribution network assets.

The way the network of assets has been built up over time is something that Vector now has limited ability to change, however Vector is able to influence present and future investment decisions in the gas distribution network. Vector’s distribution prices are designed, in line with the regulated pricing principles, to efficiently recover the cost of the existing gas distribution network and send efficient signals to users when new investments are required.

Vector has developed a high-level framework to guide the development of its pricing methodology. The overarching objectives for the methodology include:

- a. Cost recovery - ensuring Vector recovers its costs, including an appropriate return on and of investment. A key aspect of cost recovery is the predominantly sunk and fixed nature of the costs;

¹ Our pricing methodology is available at the following URL:
http://vector.co.nz/documents/101943/102864/2014+Gas+Distribution+Pricing+Methodology+Disclosure.docx_.pdf/f3b96b79-fe48-4f2a-b154-71332ae375d4.

² Full criteria for allocation of customers to pricing plans can be found in the pricing schedules below.

³ Gas delivered in standard cubic meters per hour (scm/h).

- b. Meet regulatory obligations - including compliance with the weighted average price requirements and the pricing principles;
- c. Clear pricing structure - by making it attractive to maintain connections and for new consumers to connect. Pricing should be simple and easily understood by consumers;
- d. Cost reflective pricing - to ensure that all consumers face prices that reflect the cost of providing them with service, that charges to all new consumers at least cover the incremental costs of connecting them to the network (including costs associated with upstream reinforcement) and charges to recover overhead costs and the cost of the shared network are allocated between consumers in a manner that is least likely to distort investment decisions;
- e. Consumer centric outcomes – to take account of the economic value of the service to consumers, provide pricing stability and manage price shock effectively in the transition to new price structures; and
- f. Incentivise efficient usage - in other words, encourage/discourage more utilisation of gas assets to ensure that new investments are efficient and sunk investments are not inefficiently by-passed. Consumers will benefit most from increased economies of scale and density over time as more consumers share the costs of the network.

A more fulsome description of our approach and further information on our gas distribution pricing methodology can be found at <http://vector.co.nz/pricing-methodology>.

4. REASONS FOR PRICE CHANGES

For the pricing year beginning 1 October 2014 Vector has set its prices to ensure that the revenue from Vector's gas distribution network is no more than required to recover our costs as determined by regulations from the Commerce Commission. These regulations set the weighted average prices that Vector is able to charge (in aggregate) each year and also allows Vector to recover a number of costs outside of our control ("pass through and recoverable costs"). Amongst other things, pass through and recoverable costs include council rates, regulatory levies payable by Vector to the Electricity and Gas Complaints Commission and the Commerce Commission.

The regulatory regime reflects Vector's operating costs and recognises that these costs are likely to increase over time. The regime also provides incentives for cost efficiency. At the end of each regulatory period any efficiency gains are shared with consumers through lower prices.

The regulations, and in particular the Gas Distribution Services Default Price-Quality Path Determination 2013 required an initial price reduction applied over the 15 month period from 1 July 2013 (when the determination came into effect) to 30 September 2014. Thereafter, the determination incorporates October-September annual CPI-X price changes.

Vector implemented a price reduction on 1 October 2013 rather than 1 July 2013 as our contracts with gas retailers only allow for one price change per pricing year (October to September annually). The magnitude of this price reduction over a 12 month period was greater, to achieve the overall revenue outcome required by the Commission when considered over the 15 month period. The weighted average price reduction from 1 October 2013 in gas distribution was 24%.

At the time of making the price reductions, it was acknowledged that the price change on 1 October 2014 would reflect an increase of greater than CPI, in order to reset prices back to the level that would have applied had a 1 July 2013 price change been made at that time. At the time, this was anticipated to be approximately 10%. Vector engaged with the

Commission in an effort to find ways to smooth out this impact, however was unable to readily identify an approach to do so.

Our gas distribution prices will increase by a weighted average of 10.8% from 1 October 2014. The combination of the 24% price decrease in 2013 and the 2014 increase means that gas distribution prices will be on average 16% lower than they were two years ago.

In making the price increase Vector has elected not to make any structural changes to prices in order to avoid making the impact of the price increase any bigger to individual consumers than it needs to be. Non-standard prices have been adjusted in accordance with their contractual requirements.

Our gas distribution prices are set out in the following price schedules. The schedules include prices for each of our distribution networks including the Auckland and North Island networks, and for each consumer group, including Residential, Business, Small commercial, Large commercial and Industrial.

Auckland gas distribution network

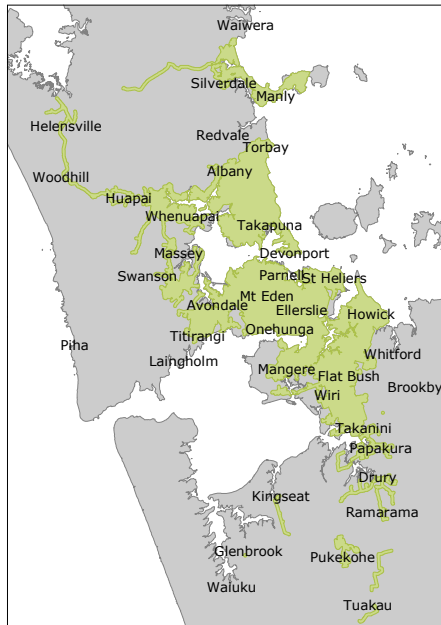
Price schedule for gas customers

Effective 1 October 2014

This document describes UnitedNetworks' standard gas distribution charges which cover the costs of distributing gas to customers connected to the Auckland gas distribution network. UnitedNetworks offers five price plans for Auckland gas distribution network customers depending on the customer's connection size and their connection type.

Network definition

The network that customers are supplied from is determined by UnitedNetworks from time to time based on the physical location of the connection of the customer's premise or property to UnitedNetworks' Auckland gas distribution network. The approximate area covered by the Auckland gas distribution network is shown on the following map.



Residential price plan GA0R

The GA0R price plan applies to all residential customers. A residential customer is a customer whose connection is for a private dwelling (intended for occupation mainly as a place of residence) not normally used for any business activity. Business activities include, but are not limited to, the following:

- Any prison that is operated by the Department of Corrections or is a police jail;
- Any hospital, home, or other institution for the care of sick, disabled, or aged persons;
- Police barracks, or police cells and lock-ups;

- Barracks conducted by the Armed Forces for the accommodation of persons subject to the Armed Forces Discipline Act 1971;
- Any hostel, barracks, dormitory, or other similar type of premises providing accommodation for any persons or class of persons;
- A building occupied by a club and used by the club for the provision of temporary or transient accommodation to members of the club;
- Any hotel in respect of which there is in force an on-licence under the Sale of Liquor Act 1989;
- Any hotel, motel, boarding house, or lodging house used for the provision of temporary or transient accommodation; or
- Any camping ground, motor camp, or marina.

| Price plan GA0R | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GA0R-FIXD | \$/day | 0.3300 |
| Variable | GA0R-24UC | \$/kWh | 0.0261 |

- The fixed charge (code GA0R-FIXD) is a daily charge applied to the number of days each customer is connected to UnitedNetworks' Auckland gas distribution network.
- The variable charge (code GA0R-24UC) applies to all gas distributed to each customer.

Business price plan GA01

The GA01 price plan applies to all non-residential customers connected to UnitedNetworks' Auckland gas distribution network with a load size (installed equipment or meter capacity) of less than or equal to 10 standard cubic metres per hour (scm/h).

| Price plan GA01 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GA01-FIXD | \$/day | 0.5700 |
| Variable | GA01-24UC | \$/kWh | 0.0172 |

- The fixed charge (code GA01-FIXD) is a daily charge applied to the number of days each customer is connected to UnitedNetworks' Auckland gas distribution network.
- The variable charge (code GA01-24UC) applies to all gas distributed to each customer.

Commercial price plan GA02

The GA02 price plan applies to all non-residential customers connected to UnitedNetworks' Auckland gas distribution network with a load size greater than 10scm/h and less than or equal to 40scm/h.

| Price plan GA02 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GA02-FIXD | \$/day | 1.0100 |
| Variable | GA02-24UC | \$/kWh | 0.0133 |

- The fixed charge (code GA02-FIXD) is a daily charge applied to the number of days each customer is connected to UnitedNetworks' Auckland gas distribution network.
- The variable charge (code GA02-24UC) applies to all gas distributed to each customer.

Commercial price plan GA03

The GA03 price plan applies to all non-residential customers connected to UnitedNetworks' Auckland gas distribution network with a load size greater than 40scm/h and less than or equal to 200scm/h.

| Price plan GA03 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GA03-FIXD | \$/day | 4.3500 |
| Variable | GA03-24UC | \$/kWh | 0.0102 |

- The fixed charge (code GA03-FIXD) is a daily charge applied to the number of days each customer is connected to UnitedNetworks' Auckland gas distribution network.
- The variable charge (code GA03-24UC) applies to all gas distributed to each customer.

Industrial price plan GA04

The GA04 price plan applies to all non-residential customers connected to UnitedNetworks' Auckland gas distribution network with a load size of greater than 200 scm/h.

| Price plan GA04 | | | |
|-----------------|-----------|--------|---------|
| Charge type | Code | Units | Rate |
| Fixed | GA04-FIXD | \$/day | 13.3500 |
| Variable | GA04-24UC | \$/kWh | 0.0068 |

- The fixed charge (code GA04-FIXD) is a daily charge applied to the number of days each customer is connected to UnitedNetworks' Auckland gas distribution network.
- The variable charge (code GA04-24UC) applies to all gas distributed to each customer.

Extent of charges

UnitedNetworks' distribution charges published in this schedule relate to the cost of owning, operating and maintaining the network as it currently exists but do not include amongst other things, energy charges for the gas customers use, transmission charges, metering charges, the cost of reading meters and the cost of customer fittings or appliances.

In order for UnitedNetworks to supply any new or changed distribution service, including but not limited to; changes to security or service levels, the connection to the network of additional connections and the modification, relocation or removal of current connections, UnitedNetworks may apply non-standard charges other than those outlined in this schedule on a case by case basis.

All rates are exclusive of GST.

For further information

To discuss how UnitedNetworks' distribution charges are applied to customer bills, customers need to contact their gas retailer who bundle UnitedNetworks' distribution charges with their energy charges into a single retail bill.

North Island gas distribution network



Price schedule for gas customers

Effective 1 October 2014

This document describes Vector's standard gas distribution charges which cover the costs of distributing gas to customers connected to the North Island gas distribution network. Vector offers five price plans for North Island gas distribution network customers depending on the customer's connection size and their connection type.

Network definition

The network that customers are supplied from is determined by Vector from time to time based on the physical location of the connection of the customer's premise or property to Vector's North Island gas distribution network. The approximate area covered by the North Island gas distribution network is shown on the following map.



- Barracks conducted by the Armed Forces for the accommodation of persons subject to the Armed Forces Discipline Act 1971;
- Any hostel, barracks, dormitory, or other similar type of premises providing accommodation for any persons or class of persons;
- A building occupied by a club and used by the club for the provision of temporary or transient accommodation to members of the club;
- Any hotel in respect of which there is in force an on-licence under the Sale of Liquor Act 1989;
- Any hotel, motel, boarding house, or lodging house used for the provision of temporary or transient accommodation; or
- Any camping ground, motor camp, or marina.

| Price plan GN0R | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GN0R-FIXD | \$/day | 0.3300 |
| Variable | GN0R-24UC | \$/kWh | 0.0261 |

- The fixed charge (code GN0R-FIXD) is a daily charge applied to the number of days each customer is connected to Vector's North Island gas distribution network.
- The variable charge (code GN0R-24UC) applies to all gas distributed to each customer.

Residential price plan GN0R

The GN0R price plan applies to all residential customers. A residential customer is a customer whose connection is for a private dwelling (intended for occupation mainly as a place of residence) not normally used for any business activity. Business activities include, but are not limited to, the following:

- Any prison that is operated by the Department of Corrections or is a police jail;
- Any hospital, home, or other institution for the care of sick, disabled, or aged persons;
- Police barracks, or police cells and lock-ups;

Business price plan GN01

The GN01 price plan applies to all non-residential customers connected to Vector's North Island gas distribution network with a load size (installed equipment or meter capacity) of less than or equal to 10 standard cubic metres per hour (scm/h).

| Price plan GN01 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GN01-FIXD | \$/day | 0.5700 |
| Variable | GN01-24UC | \$/kWh | 0.0172 |

- The fixed charge (code GN01-FIXD) is a daily charge applied to the number of days each customer is connected to Vector's North Island gas distribution network.
- The variable charge (code GN01-24UC) applies to all gas distributed to each customer.

Commercial price plan GN02

The GN02 price plan applies to all non-residential customers connected to Vector's North Island gas distribution network with a load size greater than 10scm/h and less than or equal to 40scm/h.

| Price plan GN02 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GN02-FIXD | \$/day | 1.0100 |
| Variable | GN02-24UC | \$/kWh | 0.0133 |

- The fixed charge (code GN02-FIXD) is a daily charge applied to the number of days each customer is connected to Vector's North Island gas distribution network.
- The variable charge (code GN02-24UC) applies to all gas distributed to each customer.

Commercial price plan GN03

The GN03 price plan applies to all non-residential customers connected to Vector's North Island gas distribution network with a load size greater than 40scm/h and less than or equal to 200scm/h.

| Price plan GN03 | | | |
|-----------------|-----------|--------|--------|
| Charge type | Code | Units | Rate |
| Fixed | GN03-FIXD | \$/day | 4.3500 |
| Variable | GN03-24UC | \$/kWh | 0.0102 |

- The fixed charge (code GN03-FIXD) is a daily charge applied to the number of days each customer is connected to Vector's North Island gas distribution network.
- The variable charge (code GN03-24UC) applies to all gas distributed to each customer.

Industrial price plan GN04

The GN04 price plan applies to all non-residential customers connected to Vector's North Island gas distribution network with a load size of greater than 200 scm/h.

| Price plan GN04 | | | |
|-----------------|-----------|--------|---------|
| Charge type | Code | Units | Rate |
| Fixed | GN04-FIXD | \$/day | 13.3500 |
| Variable | GN04-24UC | \$/kWh | 0.0068 |

- The fixed charge (code GN04-FIXD) is a daily charge applied to the number of days each customer is connected to Vector's North Island gas distribution network.
- The variable charge (code GN04-24UC) applies to all gas distributed to each customer.

Extent of charges

Vector's distribution charges published in this schedule relate to the cost of owning, operating and maintaining the network as it currently exists but do not include amongst other things, energy charges for the gas customers use, transmission charges, metering charges, the cost of reading meters and the cost of customer fittings or appliances.

In order for Vector to supply any new or changed distribution service, including but not limited to; changes to security or service levels, the connection to the network of additional connections and the modification, relocation or removal of current connections, Vector may apply non-standard charges other than those outlined in this schedule on a case by case basis.

All rates are exclusive of GST.

For further information

To discuss how Vector's distribution charges are applied to customer bills, customers need to contact their gas retailer who bundle Vector's distribution charges with their energy charges into a single retail bill.

Gas Distribution Charges effective from 1 October 2014

For Vector's Auckland gas distribution network

Disclosure pursuant to Gas Distribution Information Disclosure Determination 2012

| AUCKLAND NETWORK | | | | | |
|-------------------------|------------------|--|-------------------|-----------------------------|-------------------|
| Price category | Consumer numbers | Charges from 1 October 2013 to 30 September 2014 | | Charges from 1 October 2014 | |
| | | Fixed (\$/day) | Variable (\$/kWh) | Fixed (\$/day) | Variable (\$/kWh) |
| Residential GA0R | 89,000 | 0.3000 | 0.0235 | 0.3300 | 0.0261 |
| Business GA01 | 2,200 | 0.5000 | 0.0155 | 0.5700 | 0.0172 |
| Commercial GA02 | 2,500 | 0.9000 | 0.0120 | 1.0100 | 0.0133 |
| Commercial GA03 | 870 | 3.9000 | 0.0092 | 4.3500 | 0.0102 |
| Industrial GA04 | 140 | 12.0000 | 0.0061 | 13.3500 | 0.0068 |

For Vector's North Island gas distribution network

Disclosure pursuant to Gas Distribution Information Disclosure Determination 2012

| NORTH ISLAND NETWORK | | | | | |
|-----------------------------|------------------|--|-------------------|-----------------------------|-------------------|
| Price category | Consumer numbers | Charges from 1 October 2013 to 30 September 2014 | | Charges from 1 October 2014 | |
| | | Fixed (\$/day) | Variable (\$/kWh) | Fixed (\$/day) | Variable (\$/kWh) |
| Residential GN0R | 60,800 | 0.3000 | 0.0235 | 0.3300 | 0.0261 |
| Business GN01 | 2,100 | 0.5000 | 0.0155 | 0.5700 | 0.0172 |
| Commercial GN02 | 1,400 | 0.9000 | 0.0120 | 1.0100 | 0.0133 |
| Commercial GN03 | 510 | 3.9000 | 0.0092 | 4.3500 | 0.0102 |
| Industrial GN04 | 70 | 12.0000 | 0.0061 | 13.3500 | 0.0068 |

All charges are exclusive of GST.

Vector's price schedules are available on request from our office located at 101 Carlton Gore Rd, Newmarket, Auckland or can be viewed online at www.vector.co.nz/gas.