Company Name	Vector
For Year Ended	31 March 2018

Schedule 14 Mandatory Explanatory Notes

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 12 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 RY2018 ROI for Vector's Electricity Distribution Business (EDB) is 5.49%. This is lower than the 67th percentile vanilla WACC of 7.19% and the ex-ante RY2018 ROI of 7.29% generated using the Commission's DPP estimates for that year. The key factors depressing the returns in RY2018 are a lower actual revaluation CPI and lower actual lines revenue relative to the DPP forecast.

EDBs should have an ex-ante expectation of earning the 67th percentile vanilla WACC over a regulatory period. Persistent and asymmetric forecast errors (CPI and other regulated income) are significantly undermining this expectation. Vector's net lines revenue is $36m lower than the DPP allowance between RY2016 – RY2018.

The Commission set Vector's MAR for DPP2 on the basis that it would receive Other Income of ~$40m over the period. This income was discontinued prior to the start of DPP2. As a result, Vector's revenues were set $40m below the level required to generate an ex-ante return of 7.19% for DPP2. As a result of these various forecast errors, Vector expects to under-recover revenue over DPP2 by around ~$120m.

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

Other regulated income (other than gains/(losses) on asset disposals):

A $0.5m provision for payment to a customer was released in the month of March following the expiration of a connection incentive scheme term. It was one-off transaction in the disclosure year 2018.

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 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)

There has been no re-classification of items in the disclosure year other than as stated below.

The value of the regulatory asset base has been determined by rolling forward the initial regulatory asset base with allowance made for additions, disposals, depreciation and revaluation in accordance with the Electricity Distribution Services Input Methodologies Determination 2012.

Related party acquisitions by Vector's electricity business were for batteries and inverters ($2.3m) acquired from Vector Energy Solutions.

Calculation of Revaluation Rate and Revaluation of Assets

Following a change in the base year by Statistics New Zealand we have amended the values disclosed in 4 (iii) to reflect this. As a result the opening CPI value (CPI_{4-4}) does not agree to 2017 closing CPI value. Instead, opening CPI has been disclosed as 1000 consistent with Statistics New Zealand's revision. The revaluation rate for the year is 1.1%.

Roll forward of works under construction

The assets acquired from a related party have been consolidated into our disclosures within Schedule 4(iv): Roll forward of Works under Construction as the assets are recognised as "Assets commissioned" but, because of their related party nature, not as "Capital expenditure". Based on the current operation of the formulas in schedule 4(iv), this results in a reduction in works under construction which is not an accurate representation of the nature of the transactions. In its issues register response to this anomaly when raised by Powernet in 2016, the Commission recommended adding an additional row to resolve this issue and providing a description of the nature of the transaction. Consistent with the prior year we have adopted this approach in our disclosures.

Disclosure by Asset Category

We have disclosed asset category transfers between:

(a) subtransmission cables and other network assets
(b) zone substations and other network assets.

These transfers are required to reflect the underlying closing value in the database for each category.

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
RAB loss on disposal of assets after excluding amount in deferred tax $3.3m. This relates to non-deductible unamortised initial differences of RAB assets disposed and the revaluation component in RAB disposal.

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)
Movement in provisions and accruals -$0.3m.

Related party transactions: disclosure of related party transactions (Schedule 5b)

10. In the box below, provide descriptions of related party transactions beyond those disclosed on Schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under subclause 2.3.6(1)(b).

Box 7: Related party transactions
A detailed description of related party transactions has been disclosed in Schedule 5b. There have been no related party transactions within the disclosure year that require disclosure under clause 2.3.6 (1) (b).

Cost allocation (Schedule 5d)

11. 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 8: Cost allocation

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

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

Asset allocation (Schedule 5e)

12. 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 9: Commentary on asset allocation

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

Vector satisfies the thresholds in the IM determination to enable the application of ACAM to allocate not directly attributable fixed assets.

Capital Expenditure for the Disclosure Year (Schedule 6a)

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

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

    13.2 information on reclassified items in accordance with subclause 2.7.1(2),

Box 10: 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 ($9.9m).

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

Operational Expenditure for the Disclosure Year (Schedule 6b)

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

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

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

14.3 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 11: Explanation of operational expenditure for the disclosure year
Vector has not replaced any assets under operational expenditure in the disclosure year (excludes replacement of components of assets that do not extend the life of the asset). All asset replacement and renewal of asset expenditure has been classified as capital expenditure. The materiality threshold applied to identify material projects is the level of audit materiality applied by Vector's regulatory auditors ($9.9m). There was no atypical expenditure during the period which exceeded our materiality threshold, as described above. There has been no re-classification of items in the disclosure year.

Variance between forecast and actual expenditure (Schedule 7)

15. 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 12: Explanatory comment on variance in actual to forecast expenditure

Capex

Overall actual expenditure was 2% or $5m lower than forecast with key drivers being:

Consumer Connections increased by 16%, $9m due to increased Residential Subdivision activity and Customer capacity changes;

System Growth decreased by (24%), ($9m) due to Newmarket Land now being deferred long term and Whenuapai Land deferred into RY22;

Asset Relocations increased by 9%, $2m due to increased Undergrounding and relocations to accommodate new Double Deck Bus routes;

Reliability, Safety and Environment reduced by (81%) or ($2m) due to recategorisation of work as well as deferred into RY18;

Non-network reduced by (17%), ($4m) due to lower activity; and

Asset Replacement and Renewal was broadly in line with forecast.

Opex

Overall actual expenditure was 3% or $4m lower than forecast with key drivers being:

Higher vegetation management costs due to increased focus on the worst performing feeders.

Routine and corrective maintenance is 10% lower than forecast driven mainly by delay in LiDAR project. This programme was forecast to be undertaken in the year, however only a trial has been carried out so far and it is now likely that the cost will be carried in capex.

Asset replacement and renewal costs were largely in line with forecast.

System operations and network support costs were largely in line with forecast.

Business Support costs were lower than forecast with resource being redistributed to non-regulated activities reducing the allocation of corporate costs to Electricity.

Information relating to revenues and quantities for the disclosure year

16. In the box below provide-

    16.1 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

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

Box 13: Explanatory comment relating to revenue for the disclosure year

Vector's target revenue for the year ended on 31 March 2018, as included in our pricing methodology disclosure pursuant to clause 2.4.1(1) and 2.4.3(3) of the Electricity Distribution Information Disclosure Determination 2012, was $627m.

Total billed line charge revenue for the disclosure year ended on 31 March 2018 was $632m, as disclosed in schedule 8 of this disclosure. The variance between target revenue and total billed line charge is $5m or (0.82%). The variance is mainly driven by colder spells in some winter months and a warmer than average summer resulting in slightly higher volumes and demands than forecast.

Network Reliability for the Disclosure Year (Schedule 10)

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

Box 14: Commentary on network reliability for the disclosure year

Vector has completed Schedule 10 and disclosed information consistent with the normalisation requirements contained within the Electricity Distribution Information Disclosure Determination 2012. It should be noted that the disclosed SAIDI and SAIFI values are therefore not aligned with those presented in Vector's 2018 Compliance Statement (which is based on the Electricity Default Price-Quality Path Determination 2015). This is in line with guidance from the Commerce Commission's Issues Register item #447.

The details on Vector's network reliability, including actions and initiatives to improve reliability performance, can also be found in Vector's 2018 Compliance Statement: https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/price-quality-path

When reviewing the metrics presented in Schedule 10, the following point should also be noted. Vector has elected to report normalised SAIFI and SAIDI values for each sub-network based on normalised assessment datasets for each sub-network, with boundary values calculated using the reference dataset for the sub-networks. This is one of two options the Commission provides for EDBs to report on sub-network reliability (ref: External Issues Register response #231). Vector has chosen this option on the basis that this methodology provides more meaningful analysis of the actual performance of each sub-network.

Insurance cover

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

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

    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.

Insurance costs are allocated to the EDB 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
N/A

Company Name Vector

For Year Ended 31 March 2018

Schedule 15 Voluntary Explanatory Notes

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 N/A