

Company Name	Vector
For Year Ended	30 June 2015

Schedule 14 Mandatory Explanatory Notes

1. This schedule requires GTBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.20 and subclause 2.5.1(1)(e).
2. This schedule is mandatory—GTBs 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 GTBs to give additional explanation of disclosed information should they elect to do so.

Mandatory explanatory notes

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 Disclosure IRR calculation has now been updated and is largely consistent with the Commerce Commission's electricity distribution price path reset model. The exception being timing differences related to cashflows.

The 2015 ROI, using the new IRR calculation, is c6.4%. This is lower than the 75th percentile vanilla WACC of 7.44% used for the price reset due to the following key reasons:

- The actual revaluation CPI (0.40%) for 2015 is significantly lower than the forecast revaluation rate (2.2%) used by the Commission to set the building blocks allowable revenue.
- Vector's revenue is lower than maximum allowable revenue due to declining capacity reservations.

There has been no re-classification of 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 Schedule 3(i)
- 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.

Merger and acquisition expenses (3(iv) of Schedule 3)

6. If the GTB 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 GTB.

Box 3: Explanatory comment on merger and acquisition expenditure

No merger and acquisition expenditure has been incurred during 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.

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 Gas Transmission Services Input Methodologies Determination 2012 [NZCC 38].

Regulatory tax allowance: disclosure of permanent differences (5a(i) of Schedule 5a)

8. In the box below, provide descriptions and workings of the material permanent differences included in the following items, as recorded in the asterisked categories in 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.

Regulatory tax allowance: disclosure of temporary differences (5a(i) of Schedule 5a)

9. In the box below, provide descriptions and workings of the material temporary differences included in the following items, as recorded in the asterisked categories in 5a(i) of Schedule 5a:
- 9.1 Income not included in regulatory profit / (loss) before tax but taxable
 - 9.2 Expenditure or loss in regulatory profit / (loss) before tax but not deductible
 - 9.3 Income included in regulatory profit / (loss) before tax but not taxable
 - 9.4 Expenditure or loss deductible but not in regulatory profit / (loss) before tax

Box 6: Temporary differences

Income not included in regulatory profit / (loss) before tax but taxable

- Gain on disposal of assets - tax \$195,000

Expenditure or loss in regulatory profit / (loss) before tax but not deductible

- Non-deductible provision & accruals \$721,000

Income included in regulatory profit / (loss) before tax but not taxable

- Gain on disposal of assets - RAB \$96,000.

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

- 9 In the box below, provide descriptions of related party transactions beyond those disclosed in Schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under subclause 2.3.7(2)(b).

Box 7: Related party transactions

A detailed description of related party transactions has been disclosed on Schedule 5b.

There have been related party transactions within the disclosure year that are disclosed under clause 2.3.7(2)(b), as described in Schedule 5b. These transactions relate to the provision of contracting services by Vector Limited to Vector Gas Limited (the GTB). The transactions reflect the directly attributable cost of providing the services incurred by Vector Limited plus a mark-up.

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 8: Cost allocation

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

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

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 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)

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

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

12.3 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 and programmes is \$3m, which is consistent with the materiality threshold used for the external assurance engagement.

There have been no 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-

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

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

13.4 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 11: Explanation of operational expenditure for the disclosure year

Vector's operating expenditure is down 4% on prior year. The key difference relates to lower gas costs for compressors and heaters.

Commentary on assets replaced or renewed

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

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 12: Explanatory comment on variance in actual to forecast expenditure

OPEX

The opex spend in RY15 is 8% lower than forecast due to lower gas costs for compressors and heaters, lower corporate costs than forecast and a lower percentage allocation of Corporate costs to the Gas Transmission business than forecast.

CAPEX

Capex was \$5m above forecast due to higher connection expenditure (\$1.4m) due to a number of dairy factory expansions. Some of these projects were previously forecast as system growth but recategorised as customer connection expenditure as a result of the actual work carried out.

Asset relocation expenditure increased (\$3.0m). These activities are funded by third party contributions, and align to the timings of NZTA and Auckland Transport programmes.

Non network expenditure was higher than forecast largely due to a field services data capture project (\$0.9m) designed to increase efficiency in the field.

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 13: Explanatory comment relating to revenue for the disclosure year

Target revenue is defined as the target revenue disclosed under clause 2.4.3(3) of the ID determination, which relates to the pricing year of the GTB (ending 30 September). The total line charge revenue in Schedule 8 of this disclosure is the revenue that relates to the disclosure year (ending 30 June).

As the disclosure year and pricing year are different, target revenue and total line charge revenue, under the definitions above, will differ. In respect of the overlapping 9 month period between October 2014 and June 2015, target revenue (\$68.6m) differs marginally from actual revenue (\$68.2m) due to lower volumes.

- 16 If prices or price category codes (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of quantities and

revenues between connection types or contract types (as applicable) disclosed in Schedule 9d(ii) and Schedule 8.

Box 14: Explanatory comment relating to changed prices or price category codes

There have been no structural changes to prices for 2015-2016. Prices have changed, however the changes have had no impact on Connection Types or Contract Types and have had no effect on the reporting of quantities and revenues between consumer groups.

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 15: Commentary on network reliability for the disclosure year

Planned interruptions are very rare events on Gas Transmission systems and there were none in this disclosure period.

A total of 123 incidents were identified in this disclosure period, similar to historical performance as disclosed in 2014 (122) and recorded in Section 4 of Vector's Gas Transmission AMP (Service Levels). The majority of these incidents were station equipment (leaks, controlled venting and product control related) and natural gas odour reported in vicinity of pipelines (56 in total), unauthorised work over the pipeline (33), and curtailments (34).

There were 34 curtailments during the period, and no interruptions. The 34 curtailments resulted from gas balancing effects on the Vector system from the Maui pipeline. These were due to third parties on the Maui system (typically production station trips and unplanned outages).

Insurance cover

18 In the box below, provide details of any insurance cover for the assets, including-

18.2 The GTB's approaches and practices in regard to the insurance of assets, including the level of insurance;

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

Box 16: Explanation of insurance cover

Coverage includes;

- Compressor stations, delivery points and scraper stations
- The pipeline; and
- Buildings

The types of cover purchased for these assets include material damage, business interruption and contract works insurance.

Insurance costs are allocated to the gas transmission segment through an assessment of the proportion of assets insured for property insurance.

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:

19.2 a description of each error; and

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

Box 17: Disclosure of amendment to previously disclosed information

No amendments are required.

Company Name	Vector
For Year Ended	30 June 2015

Schedule 15 Voluntary Explanatory Notes

1. This schedule enables GTBs to provide, should they wish to-
 - 19.4 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.20, 2.5.1, and 2.5.2;
 - 19.5 information on any substantial changes to information disclosed in relation to a prior disclosure year, as a result of final wash-ups.
- 20 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.
- 21 Provide additional explanatory comment in the box below.

Box 1: Voluntary explanatory comment on disclosed information

Schedule 4

Vector has re-stated and reduced the opening of works under construction in Schedule 4(iv) by \$1.7m due to change in customer projects

Schedule 4 (vii)

The category of “other network assets” includes land and easements which are not subject to amortisation, as their remaining useful lives are indefinite. In the past, Vector has used the opening RAB as weights, which included land and easements as a denominator for calculating weighted average remaining asset life and weighted average expected total asset life.

Calculation of weighted average remaining asset life and weighted average expected total asset life is not clearly defined in the IMs and ID.

After a further examination of calculation, assets with indefinite useful lives have been excluded from the denominator for calculating weighted average remaining asset life and weighted average expected total asset life to reflect the fair result for RY2015.