

Company Name Vector – gas transmission business

For Year Ended 30 June 2013

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Gas Transmission Information Disclosure Determination 2012)

1. This Schedule requires GTBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.20, and 2.5.1.
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 clause 2.7.1(2).

Box 1: Explanatory comment on return on investment

The disclosed ROI varies from the 75th percentile vanilla information disclosure WACC due to reported revenues for the reported period not reflecting price resets (which took effect from 1 October 2013).

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 regulatory line income’ other than gains and losses on asset sales, as disclosed in Schedule 3(i)
 - 5.2 information on reclassified items in accordance with clause 2.7.1(2).

Box 2: Explanatory comment on regulatory profit

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

There is no other regulatory income.

Merger and acquisition expenses (Schedule 3(iv))

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 clause 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 clause 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.

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

8. In the box below, provide descriptions and workings of the following items, as recorded in the asterisked categories in of Schedule 5a(i)-

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

<i>Sch ref</i>	Permanent differences:	<i>\$000s</i>
<i>Row 13</i>	<i>Income not included in regulatory profit /(loss) before tax but taxable</i>	<u>0</u>
<i>Row 14</i>	<i>Expenditure or loss in regulatory profit /(loss) before tax but not deductible</i> Non-deductible entertainment	<u>22</u>
<i>Row 16</i>	<i>Income included in regulatory profit /(loss) before tax but not taxable</i> Total revaluation	<u>3,417</u>
<i>Row 18</i>	<i>Expenditure or loss deductible but not in regulatory profit /(loss) before tax</i>	<u>0</u>

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

9. In the box below, provide descriptions and workings of items recorded in the asterisked category 'Tax effect of other temporary differences' in Schedule 5a(i)

Box 6: Temporary differences

<i>Sch ref</i>	Temporary differences:	\$000s
<i>Row 21</i>	<i>Income not included in regulatory profit /(loss) before tax but taxable</i>	
	Tax gain on disposal of assets	207
<i>Row 22</i>	<i>Expenditure or loss in regulatory profit /(loss) before tax but not deductible</i>	
	RAB loss on disposal of assets	125
<i>Row 24</i>	<i>Income included in regulatory profit /(loss) before tax but not taxable</i>	
		0
<i>Row 25</i>	<i>Expenditure or loss deductible but not in regulatory profit /(loss) before tax</i>	
	<u>Provisions, accruals & other:</u>	
	Accrued employee entitlements & related expenses	138
	Accruals -general	219
	Accruals-professional fees	348
	Provision for doubtful debts	19
		724

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

10. 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 clause 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 of up to 17.2%.

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 clause 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)

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 clause 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 capital expenditure 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 clause 2.7.1(2)

Box 10: Explanation of capital expenditure for the disclosure year

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

Information for 6a (ii) - 6a (ix) of Schedule 6a is not required to be disclosed for the disclosure year 2013 under clause 2.12.10 (5).

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 operating expenditure, as reported Schedule 6b(i)
 - 14.2 Information on reclassified items in accordance with clause 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

No assets were replaced or renewed under operational expenditure in the disclosure year.

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

There is no material atypical expenditure to be declared 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 clause 2.7.1(2).

Box 12: Explanatory comment on variance in actual to forecast expenditure

Expenditure on Assets

The 53ZD submission was based on commissioned asset values and as such a direct comparison is not possible.

Operational Expenditure

Total expenditure is lower than forecast predominantly driven by the exclusion of unaccounted for gas in the current disclosure (where it had been included in opex in the 53ZD submission), lower than budgeted fuel gas costs and lower maintenance costs incurred in the year due efficiencies realised and reassessment of requirements.

Information relating to revenues and quantities for the disclosure year

16. 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 clauses 2.4.1 and 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 GPB. For Vector, the disclosure year and pricing year are different, so Vector's GDB and GTB schedule 7's currently require comparison of actual revenue over July-June with target revenue over October-September. These numbers will therefore be different. However in respect of the 9 month period of overlap in the disclosure year and the pricing year between October 2012 and June 2013, target revenue (\$89.3m) differs from actual revenue (\$87.3m) due to lower than budgeted volumes (\$2.0m).

17. 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 8.

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

Prices and the structure of prices have changed, however the structure changes have had no impact on Connection Types or Contract Types and have had no effect on the reporting of quantities and revenues between groups.

Network Reliability for the Disclosure Year (Schedule 10a)

18. 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 138 incidents were identified in this disclosure period, comparing favourably with historical performance as recorded in Section 4 of Vector's Gas Transmission AMP (Service Levels). The majority of these incidents were station equipment related events (leaks, controlled venting and product control related – 85 in total), unauthorised work over the pipeline (38), and curtailments (15).

There was one unplanned interruption experienced during this disclosure period – the failure of the regulators at Southdown in February 2013. 15 additional interruption and curtailment events were recorded through the period, all being curtailments resulting from the Maui pipeline supply due to third parties on the Maui system (typically production station trips and unplanned outages).

In schedule 9a and 9b we have disclosed 21 compressors situated at 8 compressor stations. In schedule 10a we have reported operating data for 17 compressors at 7 stations. The difference is the 3 compressors at the Derby Road Compressor Station and Compressor unit 4 at the Kapuni Gas Treatment Plant. All these compressors were non-operational during the disclosure period.

Insurance cover

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

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

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

Box 16: Explanation of insurance cover

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

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

In respect of the insurance cover the information reflects "insurance years" running from 1 September to 30 August each year and premium costs are allocated to the appropriate regulatory years to derive the premium values.

Company Name Vector – gas transmission business

For Year Ended 30 June 2013

Schedule 14a Mandatory Explanatory Notes on Forecast Information

(In this Schedule, clause references are to the Gas Transmission Information Disclosure Determination 2012)

1. This Schedule requires GTBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
2. This Schedule is mandatory. GTBs must provide the explanatory comment specified below, in accordance with clause 2.7.2. This information is not part of the audited disclosure information, and so is not subject to the assurance requirements specified in section 2.8.

Commentary on difference between nominal and constant price capital expenditure forecasts (Schedule 11a)

3. In the box below, comment on the difference between nominal and constant price capital expenditure for the disclosure year, as disclosed in Schedule 11a.

Box 1: Commentary on difference between nominal and constant price capital expenditure forecasts

Vector has used the NZIER (New Zealand Institute of Economic Research) June 2013 PPI (Producer Price Index-outputs) forecast from 2013 to 2017. Thereafter we have assumed a long-term inflation rate of 2.5%. The constant price capital expenditure forecast is then inflated by the above mentioned PPI forecast to nominal price capital expenditure forecasts.

Commentary on difference between nominal and constant price operational expenditure forecasts (Schedule 11b)

4. In the box below, comment on the difference between nominal and constant price operational expenditure for the disclosure year, as disclosed in Schedule 11b.

Box2: Commentary on difference between nominal and constant price operational expenditure forecasts

Vector has used the NZIER (New Zealand Institute of Economic Research) June 2013 PPI (Producer Price Index-outputs) forecast from 2013 to 2017. Thereafter we have assumed a long-term inflation rate of 2.5%. The constant price operational expenditure forecast is then inflated by the above mentioned PPI forecast to nominal price operational expenditure forecasts.

Company Name Vector – gas transmission businessFor Year Ended 30 June 2013

Schedule 14b Mandatory Explanatory Notes on Transitional Financial Information

(In this Schedule, clause references are to the Gas Transmission Information Disclosure Determination 2012)

1. This Schedule provides for GTBs to provide explanatory notes to the transitional financial information disclosed in accordance with clauses 2.12.1 and 2.12.5.
2. This Schedule is mandatory—GTBs must provide the explanatory comment specified below, in accordance with clause 2.12.1 and 2.12.5. This information is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.

Initial RAB adjustment (Schedule 5h)

3. In the box below, comment on adjustments to the initial RAB as disclosed in Schedule 5h.

Box 1: Commentary on adjustments to the initial RAB

The initial RAB included the following adjustments:

	2003 (\$000)	2004 (\$000)	2005 (\$000)	2006 (\$000)	2007 (\$000)
Land	3,101	0	0	0	0
Critical spares	991	0	0	0	0
Intangible Assets (excluding goodwill)	0	0	10,413	0	0
Line pack	0	0	0	0	1,429

Further detail on the adjustments to the initial RAB is provided in the engineer's report disclosed in accordance with clause 2.12.8.

Related party transactions (Vector)

4. For Vector, to the extent that any change in regulatory profit and ROI reported for 2013 (compared to that reported for 2012) is attributable to the change in treatment of related party transactions, provide an explanation of the change in the box below.

Box 2: Change in regulatory profit and ROI due to change in treatment of related party transactions

There has been no change in treatment of related party transactions disclosed for the disclosure years 2012 and 2013.

Asset allocation (transitional)

5. In the box below, comment on asset allocation as disclosed in Schedule 5e. This comment must include information on reclassified items in accordance with clause 2.7.1(2) for disclosure years 2011 and 2012.

Box 3: Commentary on asset allocation

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

There has been no re-classification of items for disclosure years 2011 and 2012.

Company Name Vector – gas transmission business

For Year Ended 30 June 2013

Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Gas Transmission Information Disclosure Determination 2012)

1. This Schedule enables GTBs to provide, should they wish to-
 - 1.1 additional explanatory comment to reports prepared in accordance with clauses 2.3.1, 2.4.20, 2.5.1, 2.5.2, and 2.6.5;
 - 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**Schedule 4(vii) – Disclosure by Asset Category**

Information for the RAB roll forward is extracted from Vector’s financial asset register which maintains assets at a less granular level than the technical asset register. This impacts on the ability of Vector to report at the level of detail now required in section (vii), in particular for the RAB value of special crossings and main-line valves. As Vector is unable to separately identify special crossing assets for RAB purposes, these have been reported under the pipes asset category. The RAB value of main-line valves is included in the stations asset category. Vector intends to address this issue for future disclosures and will endeavour to report special crossings and main-line valves separately for the 2014 disclosures.

Schedule 8 – Billed Quantities and Line Charge Revenues

Schedule 8 requires disclosure of quantities billed, including an “other quantities” category. Other quantities billed are not disaggregated in the disclosures as there are several quantity types with an immaterial revenue value. The total value of other line charge revenue is 0.3% of total line charge revenue.

Schedules 9a, 9b and 12a – Asset Classes

In some cases the asset classes and asset categories included in Schedules 9a and 9b do not cater for all of the assets included in Vector’s Asset Management Plan (or their associated condition in Schedule 12a) based on our interpretation of the definitions included in the Information Disclosure Determination (Determination):

- a) The Determination does not define Scraper Station. Vector has interpreted a Scraper Station to mean a station used for the prime purpose of PIG launching/receiving. Therefore 11 Scraper Stations are included in Schedule 9a/9b. 25 PIG launchers and 32 PIG receivers are installed at stations that have a different primary purpose (e.g. Compressor Stations), and have therefore not been counted;
- b) The Determination definition for Main-line valve is: *“any valves and ancillary devices in a dedicated station, installed for the purpose of stopping the flow of gas in a pipeline or lateral. This does not include instrumentation valves or valves installed in any other station type.”* In accordance with this definition, Vector has counted 78 Main-line valves in Schedule 9a/9b. 51 Main-line valves installed at stations that have a different primary purpose (e.g. Compressor stations), have therefore not been counted; and
- c) The Determination definition for Metering System is: *“devices that measure and record the quantity of gas that has flowed through a point in a period of time and may additionally measure and record the rate of flow”*. Vector has counted 137 metering systems in Schedule 9a/9b. 22 metering systems comprise of more than one meter and any meters in addition to the first meter at the metering system have not been counted.

Schedule 9c – MAOP

For some transmission systems, more than one MAOP has been reported due to some segments of pipeline within the five transmission systems reported having different MAOPs. MAOP values are reported in kilopascals.

Schedule 9c – Number of Offtake Points

The number of offtake points reported in Schedule 9c is the total delivery welded points that match the relevant connection type, and is based on the total count of billed delivery points during the disclosure year. The number reported is different to the number reported in Schedules 9a and 9b for Asset Category: Stations, Asset Class: Offtake Point where the definition of station has been applied: “means a facility at which an operation on and/or measurement of the gas occurs by means of devise(s) installed at the facility”. As an example, Hunua Delivery point is counted as three offtake points in Schedule 9c but is counted as one station offtake point in schedules 9a and 9b.

Schedule 9d – Report on Demand

For 9d(iii) the difference between the Total gas entering the network and the Total gas conveyed plus Total unaccounted for gas is 14TJ, this figure represents the net change in line pack across Vector’s systems over the disclosure period.

The volume of gas entering the system, when measured by transmission line sections, is greater (by 4,553 TJ) than when reporting gas entering the network as a whole. This is because gas transfers to/from the Bay of Plenty section are included in the disaggregated (by line sections) disclosure because the connection point between the SKF and BOP sub-systems is a receipt point for BOP. However, as these are simply transfers between pipeline sections the transfers are not counted in the aggregated disclosure.

Schedule 11a – Expenditure on Assets Forecast

Although a substantial proportion of Vector’s annual expenditure is to address safety, reliability, regulatory, legislative, quality and environmental aspects, these aspects are not costed separately in projects with multiple business drivers. For projects of this nature, this expenditure is therefore rolled-up into other capex categories such as Asset Replacement and Renewal.

Schedule 11b- Insurance Costs

Insurance costs (row 38 of Schedule 11b) have been presented in nominal dollars. Although the Schedule requests these values in constant price terms, our insurance broker has advised that this is not possible, as no standard inflation index such as CPI is appropriate for use in the insurance industry. Insurance costs in constant price terms can therefore not be credibly forecast.

Schedule 12b - Line Pack

Schedule 12b asks for quantities of gas entering the system and exiting or being used within the system, as well as unaccounted for gas. However, it does not take account of changes to line pack gas; line pack gas is gas kept in the system to maintain the required system pressure level. For this reason, in the disclosure for CY total gas entering the

system does not equal total gas delivered to consumers plus total gas used in compressor stations plus total gas used in heating systems plus total unaccounted for gas. That is, some gas which has entered the system simply remains there and is not used or delivered as it has been purchased by Vector to increase Line Pack or, in the case where total gas conveyed plus unaccounted for gas is greater than the gas injected into the system, Vector has sold gas to decrease Line Pack.

Changes in Line Pack between two points in time are possible where there are differences in the measured pressure and/or temperature. Vector uses its best endeavours to maintain Line Pack within acceptable operational limits for defined sections of pipeline. Therefore, over time, by maintaining the line pack within these limits the net changes to line pack can be assumed to be zero.

Vector has therefore forecast line pack changes to be zero over the five year planning period.

Schedule 12b - Connections

Schedule 12b appears to include a drafting error where the metric “number of connections” has been omitted from the table of Connections in 12b (i). That term has been used in the equivalent schedules for both electricity and (by amendment via the Commission’s Issues Register) gas distribution.

Vector has therefore assumed that disclosure in 12b (i) should be by “number of connections” which is defined in Schedule 16 as “number of new offtake points”. An offtake point has been interpreted to mean a delivery point.

Consistent with disclosure across electricity and gas distribution, and the Commission’s Issues Register, gross new connections are disclosed.