Company Name Vector – Gas Transmission business

For Year Ended 30 June 2014

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 Disclosure ROI calculation is not compatible with IRR calculation included in the Commerce Commission's draft electricity distribution DPP model released on 4 July 2014. This IRR calculation has been demonstrated to be consistent with the basis of setting starting revenues. Therefore, the disclosure ROI of 7.50% is not comparable to the 75th percentile vanilla WACC of 7.44% used for the first price reset or the 2014 disclosure year 75th percentile vanilla WACC of 7.65%.

If the 2014 ROI is restated using the DPP IRR calculation, it would be ~7.36%. This is marginally lower than the 75th percentile vanilla WACC used for the price reset.

There has been no re-classification of items in the disclosure year, other than as set out elsewhere in this schedule.

The lower IRR (consistent with the DPP IRR calculation) is marginally lower than the DPP forecast, mainly due to:

- Lower revenue
- Lower actual revaluation rate (actual 1.62% v forecast 2.01%) which reduces the closing RAB (terminal cash flow)
-

This is offset by

- Lower opex
- Lower starting RAB and additions impact

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.

Other regulated income is derived from the recovery of bad debt.

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)

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 (IM).

Reclassification

To comply with the asset classifications prescribed in the Information Disclosure input methodology (and therefore in Schedule 4(vii)) the following reclassifications of values are reported in the 2014 disclosure year.

Special crossings are now reported in the special crossing asset category whereas they were previously included in the pipes asset category and main-line valves have are now reported in the main-line valves asset category whereas they were previously included in the stations asset category. The value of the reclassified special crossings in the 2014 disclosure year is $54.6m and the value of the reclassified main-line valves is $2.3m. The value of these reclassified assets at the end of the previous disclosure year was $55.4m and $2.4m respectively.

Weighted average lives were calculated for the special crossing and main-line valve assets using their standard asset lives as per the IM, and their RAB value at the beginning of the disclosure year.

The values of $9.8m and $1.5m for intangible assets and capital spares respectively have been reclassified from the other network assets category to the non-network assets category. The 2013 values of these assets were $9.9m and $1.5m for intangible assets and capital spares respectively.

RAB indexation

RAB indexation is carried out in accordance with the information disclosure IMs using actual inflation rates. The revaluation rate that Vector has used for rolling forward the RAB is 1.62%.

In determining the starting price adjustment at the beginning of the regulatory period, the Commission assumed a revaluation rate of 2.01% in the 2014 year.

If the RAB had been rolled forward from 01/07/2012 using the Commission's forecast revaluation rates for 2013 and 2014 (the 2013 forecast revaluation rate was 2.14% compared with the revaluation required to be used under the input methodology of 0.68%) the 2014 closing RAB would be $511m, an increase of $9m.

Variations between the Commission's forecast indexation rate and actual CPI (applied to revalue the RAB for information disclosure purposes) results in revenue adjustments not being matched by changes in RAB. On this basis the value of financial capital is not maintained in the way it would be if the RAB was not subject to indexation for either information disclosure or price setting purposes. Inflation is outside the control or influence of GTBs, and in our view there is no reason for GTBs to be exposed to this risk as they cannot take steps to mitigate it.

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

	5a(ii) Disclosure of Permanent Differences	***($000s)***
	Positive permanent differences	
Row 14	***Expenditure or loss in regulatory profit /(loss) before tax but not deductible***	
	Non-deductible entertainment	22
	Non-deductible legal and professional fees	16
		38
	Negative permanent differences	
Row 16	***Income included in regulatory profit /(loss) before tax but not taxable***	
	Total revaluation	8,022

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

		($000s)
	Positive temporary differences	
Row 21	***Income not included in regulatory profit /(loss) before tax but taxable***	
	Tax gain on disposal of assets	72
Row 22	***Expenditure or loss in regulatory profit /(loss) before tax but not deductible***	
	RAB loss on disposal of assets	219
	Accrued -general	18
	Accrued employee entitlement & related expenses	238
		475
	Negative temporary differences	
Row 24	***Income included in regulatory profit /(loss) before tax but not taxable***	
	Provision for doubtful debts	25

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

The materiality threshold applied to identify material projects and programmes is $500k.

Where an item disclosed in accordance with 2.3.1 of the Gas Transmission Information Disclosure Determination is classified differently from the previous year, 2.7.1(2) of the determination requires that the GTB provide details of the item in Schedule 14, box 10.

Vector has reclassified two items. In accordance with 2.7.1(2) of the determination we provide the required details:

a. The nature of the first item is providing increased capacity due to network demand.
b. The value of the item reclassified in DY14 was $1.5m and in DY13 was $118k.
c. The classification of the item in the previous disclosure year was Consumer Connection
d. The classification of the item in the current disclosure year was System Growth
e. The item was reclassified because further analysis of the expenditure determined System Growth as the more appropriate primary driver.

a. The nature of the second item is providing direct connection to the gas pipeline for specific customers
b. The value of the item reclassified in DY14 was $381k and in DY13 was $660k.
c. The classification of the item in the previous disclosure year was System Growth
d. The classification of the item in the current disclosure year was Customer Connection
e. The item was reclassified because further analysis of the expenditure determined Customer Connection as the more appropriate primary driver.

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:

- Consumer connection expenditure was lower as work to provide increased capacity due to network demand was forecast here but reclassified and the expenditure is included under System Growth (as per Schedule 14 box 10)

- System growth increased due to the reclassification of work to provide increased capacity due to network demand, as stated above

- Asset relocations were lower than forecast due to delays from the third party initiators of the projects

Operational Expenditure

Network opex

- Total network opex is higher than forecast due to higher station inspection and maintenance costs and higher than forecast corrective maintenance required on compressors at the Kapuni Gas Treatment Plant

Non-network opex

- Total non-network opex is lower than forecast due to less corporate overhead costs being allocated to Gas Transmission, a decrease in Gas Transmission overhead costs due an improvement in cost recoveries for third parties, a higher level of time attributed to capital projects partially offset by higher contractor costs. In addition there was less than anticipated spend in relation to engineering studies

  UFG was treated as a non network cost for the forecast, but is now a recoverable cost

- The operational expenditure forecast was prepared on the basis that the business applied a markup for certain services of 17.2% This margin was not applied to all of these services

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 (ending 30 September).

The total line change 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 2013 and June 2014, target revenue ($58.1m) differs from actual revenue ($56.1m) due to lower volumes.

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

During the disclosure year ending on 30 June 2014, Vector has changed the prices applying across our transmission system. However these changes have had no impact on the allocation of quantities and revenues between connection types or contract types as disclosed in Schedule 8.

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 122 incidents were identified in this disclosure period, comparing favourably with historical performance as disclosed in 2013 (138) 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 (55 in total), unauthorised work over the pipeline (35), and curtailments (32).

There were 32 curtailments during the period, and no interruptions. The 32 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).

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 transmission segment through an assessment of the proportion of assets insured for property insurance. 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.

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 2014

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

The constant price capital expenditure forecast is inflated by the PPI forecast to convert it to a nominal capital expenditure forecasts.

Vector PPI forecast is based on the NZIER (New Zealand Institute of Economic Research) March 2014 PPI (Producer Price Index-outputs) forecast from 2014 to 2017. Thereafter, we have assumed a long-term PPI rate of 2.5%.

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

The constant price operational expenditure forecast is inflated by the PPI forecast to convert it to a nominal operational expenditure forecasts.

Vector PPI forecast is based on the NZIER (New Zealand Institute of Economic Research) March 2014 PPI (Producer Price Index-outputs) forecast from 2014 to 2017. Thereafter, we have assumed a long-term PPI rate of 2.5%.

Company Name: Vector – gas transmission business

For Year Ended: 30 June 2014

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 8 – Billed Quantities and Revenues

Vector has a variety of other line charge revenues and has provided a revenue figure under Schedule 8(iii) to account for these.

Vector has not provided the quantities for other quantity billed in Schedule 8(ii) as the revenue does not have one singular unit. Unit types that are used for other quantity billed include; days, months, years and GJ. Other quantity billed also include ad-hoc/one off charges with no unit value.

Vector believes that:

- Due to the relatively small total of the other line charge revenues an aggregate revenue total for other line charge revenues best meets the schedule's requirements; and
- Due to the variety of units used for other quantity billed and the relatively small associated revenue then showing 'n/a' for the units of other quantity billed is the most practical solution for the schedule.

The $358,000 for 'Other line charge revenue' for the year ended 30 June 2014 is divided into $102,000 for income from interconnection agreements with gas suppliers that inject gas into Vector's transmission system and $256,000 which is the net of accounting treatments of gas transmission revenue. The accounting treatments include the June 2013 accrual reversals, the accruals for June 2014 as well as amounts accrued for other expected gas transmission income and credits. Accounting treatments are included in other line charge revenue as they have no associated units.

Schedules 9a and 9b - 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 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 – Demand

For 9d(iii) the difference between the Total gas entering the network and the Total gas conveyed plus Total unaccounted for gas is -3TJ, this figure represents the net change in line pack across Vector's systems over the disclosure period.

Vector has broken its transmission systems into sections as disclosed in its Asset Management Plan, the difference of 3,415 TJ between the total gas entering the network and the total gas entering the system is due to a connection point between the South-Kapuni-Frankley Road (SKF) and Bay of Plenty (BOP) systems, for SKF this connection is a delivery point and for BOP this connection is a receipt point.

If the Commerce Commission requires the information for a combined transmission system (SKF combined with BOP) and/or for line pack to be included in the Gas conveyed figures, Vector is able to supply it. Vector is also open to discussions on the best way to supply this information for ongoing disclosures.