



Independent Reasonable Assurance Report to the Directors of Vector Limited and to the New Zealand Commerce Commission

Opinion

In our opinion:

- in all material respects, Schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10 ((i)-(iv)) and 14 (boxes 1 – 12) of the Vector Limited Electricity Distribution Information Disclosure Requirements Information Templates (the 'schedules'), have been prepared, in accordance with the Commerce Commission Electricity Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) and the related Reasons Paper and Input Methodologies (together 'the determination') for the year ended 31 March 2019; and
- Vector Limited's basis for valuation of related party transactions in the year ended 31 March 2019 has complied, in all material respects, with clause 2.3.6 of the Electricity Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) and clauses 2.2.11(1)(g) and 2.2.11(5) of the related Input Methodologies.

We have also concluded that, as far as appears from an examination of them:

- proper records to enable the complete and accurate compilation of the schedules as at 31 March 2019 have been kept by Vector Limited; and
- the information used in the preparation of the schedules as at 31 March 2019 has been properly extracted from Vector Limited's accounting and other records and has been sourced, where appropriate, from Vector Limited's financial and non-financial systems.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to Vector Limited's schedules for the year ended 31 March 2019.

Criteria

We have performed an engagement to provide reasonable assurance in relation to the schedules 1, 2, 3, 4, 5 (a-g), 6 (a-b), 7, 10 ((i)-(iv)) and 14 (boxes 1 – 12) prepared in accordance with the determination for the year ended 31 March 2019.

Key assurance matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to Vector Limited's schedules in the current regulatory period. We summarise below those matters and our key procedures to address those matters in order that the directors and the New Zealand Commerce Commission may better understand the process by which we arrived at our conclusion. Our procedures were undertaken in the context of and solely for the purpose of our conclusion on the schedules as a whole and we do not express discrete conclusions on separate elements of the schedules.

The key assurance matter**How the matter was addressed in our audit**

1. Capitalisation of assets into the regulatory assets base ('RAB') including investment in new energy technologies. Refer to Schedule 4 and Schedule 6a.

Capitalisation of assets into the RAB (capital expenditure during the year of \$188 million and assets commissioned of \$203 million) is a key assurance matter due to the following significant judgements involved:

- Assessment whether an asset meets the definition of an asset under the determination;
- Allocation of non-directly attributable assets to the electricity business. Specifically this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure;
- Assessment whether new energy technologies (for example electrical vehicles (EV) chargers, solar and battery solutions) may be included in the RAB. Specifically, they must meet the definition of either research and development expenditure, network or non-network asset per the determination.

Our procedures included, amongst others:

- examining the effectiveness of controls related to the approval of capital expenditure;
- checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria in the determination;
- comparing RAB assets commissioned to those commissioned for financial reporting purposes and obtaining explanation for any significant differences;
- identifying 'new energy technology' assets which have been capitalised to the RAB and challenging whether individually significant assets meet the required definitions to be capitalised as research and development expenditure, network or non-network assets;
- examining and challenging the allocators used to allocate non-directly attributable assets into the RAB. This includes an assessment of whether the allocator is an appropriate reflection of the cause of the expenditure,

2. Completeness and accuracy of SAIDI and SAIFI. Refer to Schedule 10(i).

The accuracy and completeness of SAIDI and SAIFI (3,816 interruptions in the period resulting in SAIDI and SAIFI of 593.6 and 2.29 respectively) is a key assurance matter due to the following factors:

- the reliance on manual data entry to collect the interruption information coupled with the large volume of interruptions inherent in a large network of over 560,000 electricity connection points;
- There are differences in the method of calculating normalised SAIDI and SAIFI between the Electricity Default-Price-Quality Path determination and Electricity Information Disclosure determination. There is ambiguity as to which methodology should be used when disclosing these statistics in the schedules. Vector Limited have elected to include both.

The procedures we performed to evaluate accuracy of the dataset used to calculate SAIDI and SAIFI included amongst others:

- assessing Vector Limited's quality assurance program over data entry;
- Testing a sample of events by comparing the facts surrounding the events such as start time, number of customers affected and end time were consistent with the underlying books and records of Vector Limited;
- Recalculating SAIDI and SAIFI according to both the methodology of the Electricity Default-Price-Quality Path determination and Electricity Information Disclosure determination.

The procedures we performed to evaluate completeness of the dataset used to calculate SAIDI and SAIFI included amongst others:

The key assurance matter**How the matter was addressed in our audit**

- Checking whether, on a sample basis, major storm and outage events recorded in the media were appropriately recorded in the dataset;
- Assessing the correct data is extracted from the underlying systems in order to prepare the Schedule;
- Performing data analysis to compare the recorded events to historic frequency and severity and obtaining explanations for significant differences;
- Challenging the dataset where no interruptions were recorded on a specific date, or where interruptions were recorded with zero SAIDI/SAIFI impact.

3. Allocation of shared and other costs into operating expenditure. Refer to Schedule 5d and Schedule 6b.

The allocation of shared and other costs (\$46 million of non directly attributable expenditure within the total of \$122 million of operating expenditure) into operating expenditure is a key assurance matter due to:

- The fact that Vector Limited operates across a number of businesses, both regulated services (electricity distribution and gas distribution) and non-regulated services. A number of operating costs can therefore be shared across these businesses;
- Allocation of shared and other costs into the electricity distribution business requires judgement. Specifically this judgement relates to the selection of allocators which appropriately align to the cause of the expenditure.

The procedures we performed to evaluate the allocation of non-directly attributable costs included, amongst others;

- Examining and challenging the allocators used to record shared and other costs into operating expenditure. This included assessing whether the allocator is an appropriate reflection of the cause of the expenditure;
- Comparing the total amount of shared and other costs to that recorded for financial reporting purposes and assessing any significant differences;
- Comparing shared and other costs to historic levels and our understanding of the current business model and strategy.

4. Valuation and identification of related party transactions Refer to Schedule 5b.

The valuation of transactions with related parties (\$10 million of purchases from related parties included in operating expenditures and \$14 million of assets acquired from related parties included into capital expenditure in the period) is a key assurance matter due to the significant judgement in forming a view of related party pricing in the absence, or insufficiency, of publicly available information about pricing and terms of certain transactions.

The identification of transactions with related parties is a key assurance matter because Vector Limited operate in a number of business areas and holds

The procedures we performed to evaluate valuation of related parties transactions included amongst others:

- Comparison of the related party expenditure recorded by Vector Limited to ensure
 - a) it reflects the price paid by Vector Limited and
 - b) the price paid is not materially higher than at least one of the below:
 - the standard price list or standard rates obtained directly from the related party;

The key assurance matter

certain investments which may give rise to related party transactions with the electricity distribution business.

How the matter was addressed in our audit

- the cost incurred by the related party; or
 - the observed market price for similar goods or services.
 - Inquiring and challenging whether the terms and conditions extended by related parties to Vector to the standard terms and conditions of the vendor;
- The procedures we performed to evaluate completeness of related parties transactions included:
- Challenging whether all related party transactions had been included by comparing to our understanding of Vector Limited's operating model;
 - Assessing whether all related party transactions recorded for financial reporting purposes had been correctly identified and disclosed.

Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the schedules are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the schedules are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the schedules.

Use of this assurance Report

Our report should not be regarded as suitable to be used or relied on by any party other than Vector Limited and the New Zealand Commerce Commission in relation to section 2.8.1 of the Electricity Distribution Information Disclosure Determination 2012 (amended as of 3 April 2018) for any purpose or in any context. Any party other than Vector Limited and the New Zealand Commerce Commission who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Vector Limited and the New Zealand Commerce Commission for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to Vector Limited and the New Zealand Commerce Commission on the basis that it shall not be copied, referred to or disclosed, in whole (save for Vector Limited's own internal purposes) or in part, without our prior written consent.

Directors' responsibility for the schedules

The directors of Vector Limited are responsible for the preparation and fair presentation of the schedules in accordance with the determination. This responsibility includes such internal control as the directors determine is necessary to enable the preparation of the schedules that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the directors of Vector Limited and the New Zealand Commerce Commission on the preparation and presentation of the schedules in accordance with the determination.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to Vector Limited such as the annual audit and half-yearly review of the financial statements, regulatory assurance services, other assurance services, IT forensic and other forensic services. Subject to certain restrictions, partners and employees of our firm may also deal with Vector Limited on normal terms within the ordinary course of trading activities of the business of Vector Limited. These matters have not impaired our independence as assurance providers of Vector Limited for this engagement. The firm has no other relationship with, or interest in, Vector Limited.



KPMG
Auckland
22 August 2019