Company Name	Vector gas distribution business
For Year Ended	30 June 2017

Schedule 14: Mandatory Explanatory Notes

1. This schedule requires GDBs 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)(e) and 2.5.2(1)(e).

2. This schedule is mandatory—GDBs 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 GDBs 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 RY 2017 ROI of 8.09% is higher than the RY 2016 ROI of 7.14% mainly due to the increase in Revaluation rate from 0.42% to 1.74%. 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 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
There has been no re-classification of items in the disclosure year. There are no material items.

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

6. If the GDB 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 GDB.

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. 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 Distribution Services Input Methodologies Determination 2012 [NZCC 38]. An additional box in schedule 4(i) has been added to reflect adjustments required as a result of the split of the Auckland and Non-Auckland gas distribution networks as a result of the sale to First Gas in 2016.

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

There are no items in the disclosure year.

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)

Non-deductible movement of provisions and accruals of $0.2m.

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(2)(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 disclosed under clause 2.3.6 (2) (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 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 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 $2.0m which is consistent with the audit materiality limit.

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, 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
There are no asset replacement or renewal costs included in Sch 6b(i). There was no atypical expenditure during the period which exceeded the materiality threshold. 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
Actual operational expenditure is slightly lower than forecasted spend ($0.3m or 2%) largely driven by lower personnel costs. Overall expenditure on network assets was slightly higher than forecast ($0.2m or 1%) due to favourable consumer connections, offset by unfavourable variances to forecast in System Growth and Asset Replacement and Renewal. Consumer connections are $1.2m greater than forecast due to greater commercial service connections and mains/subdivision costs. System growth is $0.4m less than forecast largely due to the cancellation of a project. Asset replacement is $0.6m less than forecast. This is mainly due to an upgrade project for $0.3m that has been deferred to FY18. Non-network expenditure was in line with forecast. There has been no re-classification of items in the disclosure year.

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 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 in Schedule 7(i) is revenue as previously disclosed under clause 2.4.3(3) of the ID determination and relates to the pricing year (ending 30 September) for the Auckland gas distribution network. The target revenue is $54.4 million.

The total line charge revenue in schedule 8 that relates to the disclosure (year ending 30 June) for the Auckland network only is $53.9 million.

As the disclosure year and pricing year reported on are different, target revenue and total line charge revenue will differ slightly.

17. If price category codes or consumer groups (as applicable) have been changed in a disclosure year, please explain in the box below the effect of this on the allocation of ICPs, quantities and revenues between consumer groups disclosed in Schedule 8.

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

This disclosure year referred to is the year ending 30 June 2017. During this period, prices changed on 1 October 2016. There were no changes to price category codes or consumer groups as part of this price change.

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 (2016 text to be updated)

Vector's SAIDI and SAIFI have improved slightly from the previous year.

Planned SAIDI was impacted by 30% due to one large pipeline replacement project that impacted approximately 40 customers for up to eight hours.

Unplanned SAIDI was impacted by 36% due to a fault affecting 12 customers. They lost supply for approximately 18 hours while the fault was repaired.

Unplanned third party SAIDI was impacted by 37% due to a car vs network riser that affected a single customer for approximately 11 days.

Insurance cover

19. In the box below, provide details of any insurance cover for the assets used to provide gas pipeline services, including-

19.1 The GDB'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

Vector Limited takes insurance cover for a large number of group assets. These policies cover material damage, business interruption and contract works insurance.

In relation to the GDB these policies cover only the Auckland distribution networks gate stations and district pressure reducing stations. Vector self insures the remainder of the assets in the Gas Distribution Business.

Insurance costs are allocated to the GDB 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

20. 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:

20.1 a description of each error; and

20.2 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 gas distribution business
For Year Ended	30 June 2017

Schedule 15: Voluntary Explanatory Notes

1. This schedule enable GDBs 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

On 20 April 2016 Vector sold its gas transmission and non-Auckland gas distribution businesses to First Gas. The Commission has confirmed that no adjustments were required to be made for the disclosed comparatives that were published by Vector in 2015. Therefore, all comparative figures disclosed in Schedule 2 and Schedule 4(i) for 30 June 2015 and prior are the aggregated gas distribution values reported by Vector previously.