

Company Name	Vector
For Year Ended	31 March 2013

Schedule 14 Mandatory Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule requires EDBs to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.4.21, 2.4.22, and 2.5.2.
2. This Schedule is mandatory—EDBs 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 EDBs 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 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 April 2013) and because the 75th percentile vanilla information disclosure WACC was set at a different time and with a different (lower) 5 year risk free rate than the 75th percentile Default Price-Quality Path WACC. The reported ROI is already below the 75th percentile Default Price-Quality Path WACC, notwithstanding that the price reset had not been implemented during this period, because the 75th percentile Default Price-Quality Path WACC assumes a significantly higher rate of asset value inflation than was actually experienced during the disclosure year.

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 regulatory line income' other than gains and losses on asset sales, as disclosed in 3(i) of Schedule 3
 - 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.

The other regulated income relates to recovery of voltage support charges.

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

6. If the EDB 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 EDB.

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 Electricity Distribution Services Input Methodologies Determination 2012.

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

8. In the box below, provide descriptions and workings of 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 (current disclosure year)

Sch Ref	5(a)(ii): Disclosure of permanent differences	(\$000)
5a (i)	Positive permanent differences	
	<i>Income not included in regulatory profit /(loss) before tax but taxable</i>	
Row 10	Income under section EI 7 of the Income Tax Act 2007	8,852
	<i>Expenditure or loss in regulatory profit /(loss) before tax but not deductible</i>	
	Non-deductible entertainment	75
	GST on non-deductible entertainment	18
	Non-deductible legal fees	55
	Non-deductible professional fees	14
	Non-deductible website enhancement	34
Row 11		196
	Negative permanent differences	
	<i>Income included in regulatory profit /(loss) before tax but not taxable</i>	
Row 16	Lease incentive	14
	<i>Expenditure or loss deductible but not in regulatory profit/ (loss) before tax</i>	
Row 18		0

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

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



Box 6: Temporary differences / Tax effect of other temporary differences (current disclosure year)Sch ref
5a (vi)**5a(vii): Disclosure of temporary differences**

	Gross amount (\$000)	Tax effect 28%
Positive temporary differences		
<u>Provision & accruals:</u>		
Accrued employee entitlements & related expenses	72	20
Accrued ACC levy	12	3
	<u>84</u>	<u>23</u>
Negative temporary differences		
<u>Provision & accruals:</u>		
Provision for doubtful debts	763	214
Accruals professional fees	284	79
Accruals -general	1,562	437
Accruals-operating expenses	752	211
Electricity revenue washup provision	887	248
	<u>4,248</u>	<u>1,189</u>
Net of positive and negative temporary differences	<u>-4,164</u>	<u>-1,166</u>

Row 71

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 clause 2.3.6(1)(b).

Box 7: Related party transactions

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

There have been no related party transactions within the disclosure year that require disclosure under clause 2.3.6 (1) (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 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 (iii) - 6a (ix) of Schedule 6a is not required to be disclosed for the disclosure year 2013 under clause 2.12.5 (7).

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 in 6b(i) of Schedule 6b;
 - 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, 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 has been no re-classification of items in the disclosure year.

Vector has not replaced any assets under operational expenditure in the disclosure year. All asset replacement and renewal of assets has been classified as capital expenditure. The disclosed asset replacement and renewal operating expenditure in schedule 6b is maintenance expenditure categorised as refurbishment and renewal maintenance (as defined in the Electricity Distribution (Information Disclosure) Requirements 2008). This is in accordance with the transitional requirement set out in clause 2.12.5(8)(d) of the Electricity Information Disclosure Determination 2012 which, for the 2013 disclosure year, requires refurbishment and renewal maintenance to be disclosed as asset replacement and renewal operating expenditure.

There has been no material atypical expenditure recognised 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

The variance in the actual asset expenditure compared with forecast expenditure for the year ending 31 March 2013 arose from the following:

- During the 2012 AMP forecasting process, capital projects were forecast as stand-alone projects, not taking into account overall contingency savings that are typically realised over a portfolio of projects. This approach has now been modified for future forecasting purposes.
- A number of projects were cancelled or postponed due to below forecast large customer connections, third-party initiated relocation projects not materialising, and a number of capital projects being deferred as a result of ongoing risk prioritisation review processes.
- A provision for financing costs was included, as this was not required to be separated out under earlier Information Disclosure Requirements. (By contrast, the actual expenditure figures are reported with financing costs excluded, in accordance with the new requirements.)
- During RY2013 Vector continued to implement efficiency measures to reduce capital expenditure whilst still delivering the full capital project programme. This included innovative and more efficient means of delivering projects.

7(iii) Operational Expenditure

The manner in which operational expenditure was broken down in previous AMPs differs from the new Information Disclosure Requirements.

Actual Network Opex (\$42.5m) is allocated between Network Opex (\$32.1m) and Non Network Opex (\$10.4m) in Schedule 7, whereas the AMP forecast (\$44.2m) assumed this would all be categorised as Network Opex. In overall terms, the variance in spend from the AMP forecast is less than 5%, which is not considered material.

Information relating to revenue and quantities for the disclosure year

16. In the box below provide-

- 16.1 a comparison of the target revenue disclosed before the start of the disclosure year, in accordance with clauses 2.4.1 and 2.4.3(3) to total billed line charge revenue for the disclosure year, as disclosed in Schedule 8; and
- 16.2 explanatory comment on reasons for any material differences between target revenue and total billed line charge revenue.

Box 13: Explanatory comment relating to revenue for the disclosure year

No target revenue was disclosed before the start of the disclosure year; therefore no target revenue number has been provided in Schedule 7 and it is not possible to provide a comparison or explanatory comment on the differences between target and actual revenue.

This is consistent with the Commission's response to item number 250 on the Commission's Issues Register for Electricity and Gas Information Disclosure.

Network Reliability for the Disclosure Year (Schedule 10)

17. In the box below, comment on network reliability for the disclosure year, as disclosed in Schedule 10.

Box 14: Commentary on network reliability for the disclosure year

Network reliability for the year was very good, given significant operational challenges and the resulting increased volume of planned maintenance works that was undertaken. Although this was partly achieved by ongoing effective outage management and good preventive maintenance, it most significantly reflects the generally calm weather that prevailed during the year. Vector does not believe that last year's SAIDI and SAIFI numbers are representative of long term performance trends, and therefore a good predictor of future performance, because extreme weather is unpredictable and introduces volatility to the SAIDI/SAIFI metrics. The historical volatility of SAIDI and SAIFI figures both on Vector and other EDB networks throughout New Zealand would support this view.

The most significant storm event of the year contributed 8.2 minutes to the overall network SAIDI value which is less than Vector's calculated boundary value that identifies a major event day. However, the impact of this storm on the Northern network was more pronounced than in Auckland. When analysed at a sub-network level, the SAIDI minutes resulting from the event exceeded the calculated boundary value for the Northern network. In the normalised assessment dataset for the Northern network, SAIDI is adjusted downwards by 3.4 minutes.

Although longer-term outage trends on Vector's overhead lines remain relatively stable, the number of incidents in regulatory year 2013 has seen a reduction compared to previous disclosure years, but is still within normal operating variances. We do not believe that last year's reduction in incidents is indicative of an underlying performance improvement or of future performance. The corresponding incident volumes affecting Vector's underground networks remained at rates similar to previous disclosure years.

When reviewing the metrics presented in Schedule 10, the following points should also be noted:

1. Vector has elected to report normalised SAIFI and SAIDI values for each sub-network based on normalised assessment datasets for each sub-network, with boundary values calculated using the reference data set for the sub-networks. This is one of two options the Commission provided for EDBs to report on sub-network reliability (ref: Commission's Issues Register for Electricity and Gas Information Disclosure response #231). Vector has chosen this option on the basis that this methodology provides more meaningful analysis of the actual performance of each sub-network.
2. As part of the reporting requirements now required under Schedule 10 of the 2012 Determination, Class C interruptions must be categorised by cause. Of these cause categories, Vector is still developing a comprehensive solution for attributing specific interruptions to the adverse environment category (e.g. slips or seismic events). For regulatory year 2013, no information was collected that could attribute any one interruption to this category and as such a zero entry was made against it (all outages have been assigned to alternative primary causes).

Insurance cover

18. In the box below provide details of any insurance cover for the assets used to provide electricity distribution services, including-
- 18.1 the EDB's approaches and practices in regard to the insurance of assets used to provide electricity distribution services, including the level of insurance;
 - 18.2 in respect of any self insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 15: Explanation of insurance cover

Insurance costs are allocated to the electricity 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
For Year Ended	31 March 2013

Schedule 14a Mandatory Explanatory Notes on Forecast Information

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule provides for EDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
2. This Schedule is mandatory—EDBs 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 Reserve Bank of New Zealand December 2012 Monetary Policy Statement to develop the CPI forecast from 2013 to 2015. Thereafter we have assumed a long-term inflation rate of 2.5%. The constant dollar capital expenditure forecast is inflated by the above mentioned CPI forecast. These figures are used to convert constant price forecasts to nominal forecasts.

The CY13 figures in Schedules 11a are based on the figures disclosed in the 2012 Information disclosure.

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.

Box 2: Commentary on difference between nominal and constant price operational expenditure forecasts

Vector has used the Reserve Bank of New Zealand December 2012 Monetary Policy Statement to develop the CPI forecast from 2013 to 2015. Thereafter we have assumed a long-term inflation rate of 2.5%. The constant dollar operational expenditure forecast is inflated by the above mentioned CPI forecast. These figures are used to convert constant price forecasts to nominal forecasts.

The CY13 figures in Schedules 11b are based on the figures disclosed in the 2012 Information disclosure.

Company Name	<u>Vector</u>
For Year Ended	<u>31 March 2013</u>

Schedule 14b Mandatory Explanatory Notes on Transitional Financial Information

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule provides for EDBs to provide explanatory notes to the transitional financial information disclosed in accordance with clause 2.12.1.
2. This Schedule is mandatory—EDBs must provide the explanatory comment specified below, in accordance with clause 2.12.1. This information is part of the audited disclosure information, and so is subject to the assurance requirements specified in section 2.8.
3. In the box below provide explanatory comment on the tax effect of other temporary differences for the years ending 31 March 2010, 31 March 2011 and 31 March 2012 (as reported in Schedule 5h(vii)).

Box 1: Commentary on tax effect of other temporary differences (years ended 31 March 2010, 31 March 2011, and 31 March 2012)**5h(viii): Disclosure of temporary differences**

Sch ref		Gross amount (\$000)	Tax effect 30%
5h (vii)	Period: 31 March 2010		
	Positive temporary differences		
	<u>Provision & accruals:</u>		
	Provision for doubtful debts	3,306	992
	Accruals - embedding benefits	294	88
	Accrued ACC levy	62	19
		<u>3,662</u>	<u>1,099</u>
	Negative temporary differences		
	<u>Provision & accruals:</u>		
	Accrued employee entitlements & related expenses	236	71
	Unexpired expenditure - Eden Park amortisation	37	11
	Electricity revenue washup provision	20	6
		<u>293</u>	<u>88</u>
Row 122	Net of positive and negative temporary differences	<u>3,369</u>	<u>1,011</u>

Sch ref		Gross amount (\$000)	Tax effect 30%
5h (vii)	Period: 31 March 2011		
	Positive temporary differences		
	<u>Provision & accruals:</u>		
	Accrued ACC levy	100	30
	Accruals - operating expenses	988	296
	Accruals - professional fees	498	150
	Accruals - general	431	129
		<u>2,017</u>	<u>605</u>

Negative temporary differences			
<u>Provision & accruals:</u>			
Provision for doubtful debts		692	207
Accr employee entitlements & related expenses		1,171	351
Accruals - embedding benefits		1,769	531
Electricity revenue washup provision		292	88
		<u>3,924</u>	<u>1,177</u>
Row 122	Net of positive and negative temporary differences	<u>-1,907</u>	<u>-572</u>
Sch ref		Gross	Tax effect
5h (vii)	Period: 31 March 2012	amount	28%
		(\$000)	
Positive temporary differences			
<u>Provision & accruals:</u>			
Accrued employee entitlements & related expenses		337	94
Accruals - professional fees		65	18
Accruals - general		1,236	346
		<u>1,638</u>	<u>458</u>
Negative temporary differences			
<u>Provision & accruals:</u>			
Provision for doubtful debts		826	231
Accrued ACC levy		31	9
Accruals - operating expenses		203	57
Electricity revenue washup provision		166	46
		<u>1,226</u>	<u>343</u>
Row 122	Net of positive and negative temporary differences	<u>412</u>	<u>115</u>

4. 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.



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 a change in asset allocations for disclosure years 2011 and 2012. The rationale for change has been disclosed in 5e (ii) of Schedule 5e.



Company Name	Vector
For Year Ended	31 March 2013

Schedule 15 Voluntary Explanatory Notes

(In this Schedule, clause references are to the Electricity Distribution Information Disclosure Determination 2012)

1. This Schedule enable EDBs 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, 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 5c – Confidentiality: Vector has previously advised the Commission that we regard some information contained within schedule 5c to be commercially confidential. This is information providing the cost of debt margin Vector has negotiated with lending parties through competitive processes. To release details of the bids Vector has accepted will enable lenders to gain insights into the competitive stance taken by the successful parties and accepted by Vector. This could influence future offers of the cost of debt, potentially to the detriment of Vector and consumers. We have therefore provided both a public and a non-public version of this schedule to ensure the debt margin information remains confidential.

Schedules 9a and 9b – Asset Categorisation: In reference to response #249 on the Commission's Issues Register for Electricity and Gas Information Disclosure, Vector can confirm that it has been unable to align the following assets to any of the Commerce Commission provided categories in Schedules 9a and 9b:

Asset Class
LV Pits and Pillars (network boxes and cabinets)
LV Switch Board
LV Switch
LV Overhead Switch

No category was found that these assets could even be closely aligned to, and as such we have not disclosed any of these assets in Schedules 9a or 9b.

Schedule 9b – Asset Age Profile: The age profile required by the Commission in this disclosure is based on installation date. This is different from the way Vector has historically published this data (e.g. in the AMP), where the age profile is primarily based on equipment manufacture date. Although not always materially significant, Vector does have a number of assets that were manufactured and used for several years (in a different location) prior to being relocated and re-installed. This results in an installation age profile different from equipment age.

Schedule 9c – Circuit in Sensitive Areas: Vector's interpretation of this requirement (based on guidance provided in response #10 of the Commission's Issues Register for Electricity and Gas Information Disclosure) is not just to identify circuit length that is routed through generic sensitive areas (e.g. conservation areas), but to specifically identify those areas where Vector's costs or normal practices must be adjusted for sensitivity reasons.

Vector has not historically kept specific records capturing areas where costs or normal practices must be adjusted for sensitivity reasons and, at this time, Vector has no information comprehensively identifying areas that fall under this category. As such, a zero

entry has been made against it. Development of a more comprehensive analysis for this category will continue during the RY2014 period. This future analysis will need to take into account sensitive areas currently being developed by Auckland Council as part of their Unitary Plan.

Schedule 9c – Circuit requiring Vegetation Management: Circuit length reported under this category captures overhead lines which lie within a forested footprint. It does not currently take into account lines in proximity to isolated trees (e.g. tree-lined streets). More comprehensive analysis is planned for future years which may alter the disclosed length in this category.

Schedule 9e and 12b – Transformer Capacity: As with previous Vector disclosures (and in line with the guidance provided in response #264 on the Commission's Issues Register for Electricity and Gas Information Disclosure), the non-EDB owned distribution transformer capacity reported in Schedule 9e (and Schedule 12b) is an estimated figure only. This dataset is known to be incomplete, as Vector has no mechanism (or authority) to collect data on non-EDB owned transformers, and relies primarily on voluntary disclosures from customers.

We note that the transformer capacities reported in Schedule 9e are different to those disclosed in Schedule 12b (first published as part of Vector's Electricity Asset Management Plan 2013-2023). This update reflects additional transformer capacity added during the RY2013 reporting period (data that was not available at the time the Asset Management Plan was prepared).

Schedule 12c – Forecast consumer connections: Vector's forecast of new consumer connections in this schedule has changed since the disclosure made in March 2013, following advice from the Commission.

Based on the definition of consumer connections in the Electricity ID determination, Vector prepared the March 2013 disclosures on the basis of new net connections. When preparing the same schedule for the Gas Distribution disclosures, the gas definition made it clear that a forecast of gross new connections was required.

Vector requested clarification from the Commission and this was received verbally on 5 August. The Commission requested that the Electricity Schedule 12c be amended to reflect gross connections, if possible, and disclosed with the amendments with the other 2013 disclosures. A revised Schedule 12c with a forecast of gross new connections is therefore disclosed.