Company Name	Vector
For Year Ended	30 June 2020

Schedule 14 Mandatory Explanatory Notes

(Guidance Note: This Microsoft Word version of Schedules 14, 14a and 15 is from the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018. Clause references in this template are to that determination)

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 11 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

Relative to Vanilla WACC, ROI is down significantly due to the Commission's exaggerated forecast for CPI revaluation, which had forecasted CPI at 2.05% for the year. This forecasting methodology supposes inflation will linearly track towards the mid - range of the RBNZ target. The actual CPI was however at 1.45% for the disclosure year, which impacted ROI by $2.7m. Vector in submissions has advocated strongly for the Commission to review its forecasting approach by giving greater regard to market-based forecasts or to allow suppliers to choose not to revalue and therefore remove the forecasting error risk the suppliers face.

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).

KPMG

Box 2: Explanatory comment on regulatory profit

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

The value of "other regulated income (other than gains / (losses) on asset disposals)" is nil.

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).

KPMG

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 commissioned assets, disposals, depreciation and revaluation in accordance with the Gas Distribution Services Input Methodologies Determination 2012 (consolidated 3 April 2018).

An additional box in schedule 4(i) has been added to reflect the splitting of Auckland and Non-Auckland gas distribution networks as a result of the sale to First Gas in 2016.

Unallocated RAB roll forward

A box "Adjustment to opening RAB value" has been added to schedule 4(ii) this year to adjust the unallocated opening RAB values of those shared assets from the previous disclosure year that are no longer shared with the Gas Distribution business in the disclosure year 2020. As a result, $0.6m was adjusted from the unallocated opening RAB.

Adjustment resulting from asset allocation

An additional box in schedule 4(iv) has been added to reflect changes in the allocation of shared assets.

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 material items in the disclosure year requiring disclosure in accordance with paragraphs 8.1 to 8.4 above.

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)
There are no material items in the disclosure year requiring disclosure in accordance with paragraph 9 above.

Cost allocation (Schedule 5d)

10. 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 7: Cost allocation

There has been no re-classification of items in relation to cost allocation in the disclosure year.

The accounting-based allocation approach (ABAA) has been applied to allocate not directly attributable costs in the disclosure year in accordance with the current IM determination.

The "Property, Plant and Equipment (PPE)" asset and labour hours allocators are the key proxy allocators used to allocate not directly attributable corporate shared costs as causal factors are not available. A causal relationship cannot be established for the non-directly attributable costs because the shared nature of these services. This means there is no single cost driver leading to a cost being incurred.

Labour hours

At least every 18 months, Vector undertakes a survey of estimated time spent on regulatory activities for the purpose of regulatory cost allocation. Not all shared service functions are able to estimate time spent servicing each business due to their activities being ever changing or because activities are primarily provided on a group only basis.

PPE

A significant proportion of Vector's activities are focused on managing physical assets. Therefore, an assumption can be made that the greater the amount of physical assets a business has (measured by value) the greater share of corporate shared costs required to support that business.

The rationale behind the use of each proxy allocation is based on a thoughtful analysis of each cost item.

Asset allocation (Schedule 5e)

11. 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 8: Commentary on asset allocation

There has been no re-classification of items in relation to asset allocation in the disclosure year.

Vector applied the ABAA to allocate non-directly attributable corporate shared asset values in the disclosure year in accordance with the current IM determination. The PPE asset allocator and labour hours are the key proxy allocators.

Determining the non-network fixed assets for the regulated and non-regulated businesses follows a similar process to the operating cost allocation.

Capital Expenditure for the Disclosure Year (Schedule 6a)

12. In the box below, comment on expenditure on assets for the disclosure year, as disclosed in Schedule 6a. This comment must include-

    12.1 a description of the materiality threshold applied to identify material projects and programmes described in Schedule 6a;

    12.2 information on reclassified items in accordance with subclause 2.7.1(2).

Box 9: Explanation of capital expenditure for the disclosure year

The materiality threshold applied to identify material projects and programmes is $1.7m, which is consistent with the audit materiality level. There are no projects that have exceeded this level of materiality.

There have been no material reclassified items.

Operational Expenditure for the Disclosure Year (Schedule 6b)

13. In the box below, comment on operational expenditure for the disclosure year, as disclosed in Schedule 6b. This comment must include-

    13.1 Commentary on assets replaced or renewed with asset replacement and renewal operational expenditure, as reported in 6b(i) of Schedule 6b

    13.2 Information on reclassified items in accordance with subclause 2.7.1(2)

    13.3 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 10: 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)

14. 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 11: Explanatory comment on variance in actual to forecast expenditure

CAPEX

Overall expenditures on assets was $7.4m or 26%, lower than forecast with key drivers being:

- Customer driven activity decreased by $1.8m or 10%, mainly due to the impact of COVID-19;

- System Growth decreased by $2.1m or 78%, mainly due to new pipeline work delayed as a result of a third party;

- Asset Replacement and Renewal decreased by $1.0m or 33%, mainly due to lower pre-85 pipeline replacement costs and lower spend on District Regulator Stations upgrades;

- Asset Relocations has decreased by $1.8m or 45%, which is third party driven; and

- Non-network expenditure decreased by $2.8m or 74%, as refurbishment works on the head office building has not commenced due to COVID-19.

OPEX

Actual operational expenditure is $0.4m or 3% higher than forecast due to higher cyber security costs that were not fully forecasted.

Information relating to revenues and quantities for the disclosure year

15. 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 12: 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 gas distribution network. The target revenue is $49.1m.

The total line change revenue in Schedule 8 relates to the disclosure year (ending 30 June) for the gas distribution network. The total line charge revenue is $47.7m.

The actual line charge revenue was $1.4m lower than the target revenue, mainly due to COVID-19 lockdowns and the different reporting period.

16. 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 13: Explanatory comment relating to changed price category codes or consumer groups

This disclosure year referred to is the year ending 30 June 2020. During this period, prices changed on 1 October 2019. 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)

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

Box 14: Commentary on network reliability for the disclosure year

Vector's overall results in SAIDI was 19% higher whereas SAIFI was 13% lower when compared to the previous year.

Planned interruptions

The SAIDI/SAIFI result for planned interruptions were 96% and 15% respectively higher when compared to the previous year.

The higher SAIDI result was mainly due to a small number of outages that had relatively long durations (e.g. 5 outages accounted for over 31,000 customer minutes which equated to approximately 32% of total customer-outage minutes) and an increase in the number of outages pertaining to planned interruptions associated with riser valves replacements.

Unplanned interruptions (excluding third party damage)

The SAIDI and SAIFI results for unplanned interruptions (excluding third party damage) were 64% and 24% respectively lower when compared to the previous year.

Unplanned interruptions caused by third party damage

The SAIDI result for unplanned interruptions caused by third party damage was 21% higher whereas the SAIFI result was 49% lower compared to the previous year;

The increase in SAIDI result was due to a single event, where a third party contractor cut through a service pipe. While the service was made safe by a response crew as part of the initial response, the supply could not be reinstated immediately due to site works being carried out at the time. As a result, the event accounted for approximately 50% of total customer outage minutes.

Insurance cover

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

    18.1 The GDB's approaches and practices in regard to the insurance of assets, 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

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 gas distribution network gate stations and district pressure reducing stations. Vector self insures the remainder of the assets. 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

19. 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:

    19.1 a description of each error; and

    19.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.12.1 is publicly disclosed.

Box 16: Disclosure of amendment to previously disclosed information

No amendments are required.

Company Name	Vector
For Year Ended	30 June 2020

Schedule 15: Voluntary Explanatory Notes

(In this Schedule, clause references are to the Gas Distribution Information Disclosure Determination 2012 – as amended and consolidated 3 April 2018.)

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
N/A