

Company Name	GasNet Limited
For Year Ended	30 June 2016

Schedule 14 Mandatory Explanatory Notes

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

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, 2.5.1, and 2.5.2.
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 clause 2.7.2.

Box 1: Explanatory comment on return on investment

GasNet achieved a post tax WACC of 6.24% and a vanilla WACC of 6.87%

Under clause 2.3.3 of the ID Determination GasNet is not required to disclose information in schedule 2(iii) and has elected not to disclose this information.

No items were reclassified

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 2.7.2.

Box 2: Explanatory comment on regulatory profit

Other regulated income includes

- \$20K Contracting Revenue

No items were reclassified

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 clause 2.7.2
 - 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
 GasNet was not involved with any merger or acquisition during the disclosure year
 No items were reclassified

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 2.7.2.

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)
 No assets have been reclassified.

Table 4(ii) – Unallocated Regulatory Asset Base

The Asset Disposals of \$10k relate to pipeline assets which were physically removed from service during the year and sold to scrap metal dealers.

Asset Disposals	
Asset Class	Disposal (\$000)
Low Pressure Main Pipelines	\$ 1
Low Pressure Service Pipelines	\$ 8
Medium Pressure Service Pipelines	\$ 1
	<u>\$ 10</u>

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
 There were no permanent differences recorded for 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 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 were no other temporary differences recorded for the disclosure year.

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(2)(b).

Box 7: Related party transactions

Other related party transactions not included in the regulatory disclosures include advances to and from the shareholder Wanganui Gas Ltd and a subvention payment to Whanganui District Council.

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 2.7.2.

Box 8: Cost allocation

No Items have been reclassified.

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 2.7.2.

Box 9: Commentary on asset allocation

No Assets have been reclassified.

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 clause 2.7.2.

Box 10: Explanation of capital expenditure for the disclosure year

The projects and programmes identified are those that are typically covered as such in GasNet's Annual Plan and Asset Management Plan (where relevant) which are not considered to relate to the routine activities such as asset replacement and natural network growth. There is no specific financial threshold for reporting.

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 2.7.2
- 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

All costs associated with asset replacement or renewals are incurred as Capital Expenditure so no costs are reported for this activity under Operational Expenditure.

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 2.7.2.

Box 12: Explanatory comment on variance in actual to forecast expenditure

No Items have been reclassified.

Table 7(ii) – Expenditure on Assets

Expenditure for consumer connections was higher than forecast due to an increase in the number of residential connections and the difficulty in forecasting the cost of commercial connections.

Expenditure for Asset Replacement and Renewals was under forecast due to deferral of two asset replacement projects to 2016/17 and an asset replacement project associated with the Karoro Stream pipe crossings reported below.

Expenditure for Relocations was under forecast due to unexpected delays in commissioning of the new Intermediate Pressure steel pipe crossings under Karoro Stream installed in 2014/15. This work has now been deferred to 2017.

Box 12: Explanatory comment on variance in actual to forecast expenditure (continued)

Table 7(iii) – Operational Expenditure

Service Interruptions, Incidents and Emergencies – Due to the nature of incidents and emergencies on the network it is not possible to accurately forecast expenditure for this activity.

Routine and corrective maintenance and inspection – reflects an increase in preventative maintenance activities

Network Opex – is within a reasonable tolerance of the forecast.

Table 7(v) – Insurance

The variance in actual insurance cost incurred compared to the forecast can be directly attributed to the network insurance and the difficulty in accurately forecasting annual premiums.

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

Revenue was on budget.

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

Consistent with GasNet's Pricing Methodology there were no changes to Load Groups during the year.

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

During the period from 1 July 2015 to 30 June 2016 the reporting of network quality measures involved the use of job records created in the company's electronic work management system.

Developments in the work management system in late 2013 enabled core information to be captured in the field by network Technicians using electronic tablet devices. The information recorded in the field includes the core information required to make decisions on the network integrity, consumer service, reliability and interruption measures for reporting.

From 1 July 2014 the interruption end time definition was changed, instead of using the time that the appliances were relighted ('Restored Time'), the time that the network supply was restored up to the service valve (Time Supply On) was used. It is understood that this change aligns GasNet's definition to that of other network operators and provides a more accurate measure of the time that the network interruption ended.

Prior to 1 January 2015 a single Interruption form may have been created for interruptions to multiple supplies i.e. if two or more supplies were interrupted during a job there may have been only one Interruption form created that covered both. From 1 January the process was changed so that each property that had been interrupted has a separate Interruption form.

The number of Class B Planned interruptions were significantly higher than the previous year but typical of the two preceding years, this reflects the typical number of interruptions that occur during main renewal works completed during the reporting period.

The number of Class I interruptions were slightly higher than previous year but in line with the general downward trend.

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

The consolidated cost of insurance cover specified in Schedule 6b: Report On Operational Expenditure For The Disclosure Year is disaggregated as follows;

Network Infrastructure Insurance	\$ 163,815.70
Vehicle Insurance	\$ 2,746.57
Other Company Policies	\$ 25,663.23
Total	<u>\$192,225.50</u>

There have been no changes in the nature or type of insurance policies from information previously disclosed to the Commission.

Company Name	GasNet Limited
For Year Ended	30 June 2016

Schedule 14a Mandatory Explanatory Notes on Forecast Information

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

1. This Schedule requires GDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.5.
2. This Schedule is mandatory—GDBs must provide the explanatory comment specified below, in accordance with clause 2.7.3. 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 difference between nominal and constant price capital expenditure forecasts is due to forecast indexation being applied, based on the Change in CPI, 2 Index forecasts provided by the Commerce Commission in its Financial Model for the GPB DPP. As the Commissions data set only extended to December 2018 the remaining years were assumed to remain constant at 2%.

For Year Ended	Change in CPI, 2 index
Jun-17	2.00%
Jun-18	2.00%
Jun-19	2.00%
Jun-20	2.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%
Jun-25	2.00%
Jun-26	2.00%

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

The difference between nominal and constant price operational expenditure forecasts is due to forecast indexation being applied, based on the Change in CPI, 2 Index forecasts provided by the Commerce Commission in its Financial Model for the GPB DPP. As the Commissions data set only extended to December 2018 the remaining years were assumed to remain constant at 2%.

For Year Ended	Change in CPI, 2 index
Jun-17	2.00%
Jun-18	2.00%
Jun-19	2.00%
Jun-20	2.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%
Jun-25	2.00%
Jun-26	2.00%

Company Name	<u>GasNet Limited</u>
For Year Ended	<u>30 June 2016</u>

Schedule 15 Voluntary Explanatory Notes

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

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, 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

Nil