

Company Name	<u>GasNet Limited</u>
For Year Ended	<u>30 June 2019</u>

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

GasNet achieved a post-tax WACC of 6.83% and a vanilla WACC of 7.33%

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 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

Other regulated income includes \$17k revenue associated with cost recovery from damage to the network, \$13k with asset relocations, and \$22k with onsite network asset locations.

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 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

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 subclause 2.7.1(2).

Box 4: Explanatory comment on the value of the regulatory asset based (rolled forward)

No assets were 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	\$ 2
Intermediate Pressure Main Pipelines	\$ 7
	<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 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 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 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 were no other temporary differences recorded for the disclosure year.

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

No Items were reclassified.

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

No Assets were reclassified.

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 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)

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

Asset Replacement and Renewal Expenditure of \$16k relates to minor repairs and replacement activities associated with service riser, isolation valve and crimp fitting repairs and replacements.

No items were reclassified and there was no material atypical expenditure incurred.

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

No Items were reclassified.

Table 7(ii) – Expenditure on Assets

Consumer connections - higher than forecast due to the ongoing increase in demand for new consumer connections.

System Growth - lower than forecast reflecting a reduction in mains extensions associated with new connections and a slight downturn in new subdivisions.

Asset Replacement and Renewal - deferral of the Aramoho Rail Bridge Crossing upgrade and a significant reduction in both service relocations associated with meter relocations and joint trenching opportunities contributed to a reduction in expenditure.

Asset Relocations - higher than the nil forecast as the forecast provided for full cost recovery of costs.

Other Reliability, Safety and Environment - lower than forecast due to significant cost savings associated with the Whanganui Sales Gate IP Stream Crossing replacement. Due to the location and nature of the work a number of contingencies had been provided for in the budget forecast which did not eventuate as the work was completed under extremely favourable conditions.

Non-Network Assets – higher than forecast due to deferral from 2017/18 to 2018/19 of the purchase of a replacement Ford Transit van which was delayed due to supplier issues. The expenditure was expected to have occurred in 2017/18 consistent with the forecast for that year so provision was not made in the 2018/19 forecast.

Box 11: Explanatory comment on variance in actual to forecast expenditure (continued)

Table 7(iii) – Operational Expenditure

Service Interruptions, Incidents and Emergencies – slightly lower than forecast reflecting reduction in activity. Forecasting this activity is problematic due to the nature of incidents and emergencies on the network and the difficulty in directly controlling events that lead to costs being incurred.

Routine and corrective maintenance and inspection – increase in cost due to an increase in asset inspections during the year, notably a riser inspection programme and cathodic protection system survey.

Non-network Opex – System Operations and Network Support and Business Support are on 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

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

Revenue was on target for the year.

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

There were no changes in the disclosure year.

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

Variances in the Planned Interruptions (Class B)

Planned network interruptions were similar in number to the previous two year's figures but the total duration of the interruptions was half of the previous year. This was due to fewer number of interruptions for main renewals which tend to be longer in duration and more interruptions for locating unmapped gas service pipes, which require a relatively short duration of interruption.

Variances in the Unplanned Interruptions (Class C)

There were a similar number of typical duration unplanned interruptions (Class C) this year as previous years (except for 2017-2018 when one event involving water inundation of mains resulted in multiple consumers losing supply for around 20 hours each).

Variances in Unplanned Interruptions caused by third party damage (Class I)

The number of unplanned supply interruptions caused by third party damage (Class I) were higher than in previous years and the total duration of interruption was correspondingly higher also. One event involving damage to a gas main in Marton contributed 22 to the total of 39 interruptions.

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

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	\$ 177,703.13
Vehicle Insurance	\$ 3,486.59
Other Company Policies	<u>\$ 28,800.75</u>
Total	\$209,990.47

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

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

The following two errors were identified during the process of preparing the 2017 disclosures and published on 15 January 2018. Documentation for both can be viewed and downloaded at www.gasnet.co.nz/gasnet-disclosures under “Information Disclosure”.

1. Non-material error in 30 June 2016 Disclosure Schedules 4 & 6a relating to the incorrect treatment of Works Under Construction in Schedule 4 and its omission in Schedule 6a.
2. Non-material errors in the Schedule 10a disclosures from 30 June 2013 to 30 June 2016 inclusive relating to the times 1,000 multiplier being omitted in the calculation of the SAIDI and SAIFI indices.

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Schedule 14a: Mandatory Explanatory Notes on Forecast Information

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

1. This schedule requires GDBs to provide explanatory notes to reports prepared in accordance with clause 2.6.6.
2. This schedule is mandatory—GDBs 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 current disclosure year and the 10 year planning period, 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 an anticipated annual change in CPI of 2%.

For Year Ended	Change in CPI
Jun-19	0.00%
Jun-20	0.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%
Jun-25	2.00%
Jun-26	2.00%
Jun-27	2.00%
Jun-28	2.00%
Jun-29	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 current disclosure year and the 10 year planning period, 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 an anticipated annual change in CPI of 2%.

For Year Ended	Change in CPI
Jun-19	0.00%
Jun-20	0.00%
Jun-21	2.00%
Jun-22	2.00%
Jun-23	2.00%
Jun-24	2.00%
Jun-25	2.00%
Jun-26	2.00%
Jun-27	2.00%
Jun-28	2.00%
Jun-29	2.00%

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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

Nil.