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|----------------|----------------|
| Company Name | GasNet Limited |
| 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

GasNet achieved a post-tax WACC of 8.09% and a vanilla WACC of 8.61%

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 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 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.

On 30 June 2017 GasNet Limited, Wanganui Gas Limited, Wanganui Gas No 1 Limited and Wanganui Gas No 3 Limited were amalgamated to become GasNet Limited.

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 have been reclassified.

Table 4(ii) – Unallocated Regulatory Asset Base

The Asset Disposals of \$23k 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) |
| SCADA - Control Systems | \$ 3 |
| Low Pressure Main Pipelines | \$ 10 |
| Low Pressure Service Pipelines | \$ 1 |
| Medium Pressure Main Pipelines | \$ 5 |
| Medium Pressure Service Pipelines | \$ 3 |
| Intermediate Pressure Service Pipelines | \$ 1 |
| | <u>\$ 23</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.

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

Other related party transactions not included in the regulatory disclosures include 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 subclause 2.7.1(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 subclause 2.7.1(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 subclause 2.7.1(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 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

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 subclause 2.7.1(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 System Growth was significantly less than target due to the new main extension to the Whanganui District Council Waste Water Treatment Plant. The work spans two financial years (2016/17 and 2017/18) and whilst the planned length of mains pipe was installed by 30 June 2017 it was not commissioned.

Expenditure for all other activities were within acceptable tolerances given the nature of the work.

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 – although below forecast the actual costs incurred are slightly higher than in 2016. The forecast is an estimate of costs expected to be incurred and does not reflect a reduction in activity.

Non-network Opex – overall is within an acceptable tolerance of the forecast. System Operations and Network Support is below forecast due to a one off increase in activity associated with GasNet's non-regulated business. Business Support higher than forecast due to an increase in consultancy costs and sponsorship during the year.

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 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

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 2016/17 Pricing Methodology the new "G" series Load Groups were implemented on 1 October 2016 replacing the previous "M" series. In addition the Load Groups were changed for four consumers who were moved from non-standard to standard pricing (from the "C" series Load Group to the "G" series).

The Load Groups shown in Schedule 8 are based on the new "G" series with each of the previous "M" series Load Groups notated with its new Load Group.

Further information can be found within the 2017 Pricing Methodology document published on GasNet's website (www.gasnet.co.nz/disclosures).

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

Variances in the Planned Interruptions (Class B)

There were fewer planned interruptions of consumer's supplies in 2016-2017 than the previous year. The mains condition renewal work completed had fewer consumers connected to them than mains renewed in previous year. The average interruption duration (CAIDI) was lower than previous years.

Variances in the Unplanned Interruptions (Class C)

Unplanned interruption to supply events occurring in 2016-2017 were similar in numbers to previous years. The interruption durations are also similar to previous years except 2015-2016 where two extraordinary events elevated the total.

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

There was an increase in the number of supplies interrupted by third party damage events. Although there were fewer third party damage events than the previous year there were more consumers supplies interrupted as a result of those events in 2016-2017. One event involving damage to a gas main caused over half of the supply interruptions. The average duration of interruption was the almost the same as the previous year.

Numbers of Public reported Escapes (PRE) were typical of previous years and included minor leaks on threaded joints on service risers and valves at consumers properties.

Leaks detected by routine survey were higher than the previous two years as a result of an area survey of Gonville in Whanganui which includes much of the company's low pressure metallic network.

Third party damage events were lower than the previous years.

Three network emergencies were reported one involving damage to a gas main affecting multiple supplies, another involving interference to an asset by public and another where a home owner damaged a service pipe while digging.

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 | \$ 163,504.07 |
| Vehicle Insurance | \$ 2,778.18 |
| Other Company Policies | <u>\$ 23,560.27</u> |
| Total | \$189,842.52 |

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

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

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.

Company Name GasNet Limited

For Year Ended 30 June 2017

Schedule 14a: Mandatory Explanatory Notes on Forecast Information

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 annual change in CPI of 2%.

| For Year Ended | Change in CPI |
|----------------|---------------|
| 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% |
| Jun-27 | 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 capital expenditure forecasts is due to forecast indexation being applied, based on an annual change in CPI of 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% |
| Jun-27 | 2.00% |

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|----------------|----------------|
| Company Name | GasNet Limited |
| 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

Nil