

Company Name	<u>GasNet Limited</u>
For Year Ended	<u>30 June 2013</u>

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 5.71% and a vanilla WACC of 6.41%.

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

- \$16K Contracting Revenue
- \$4K Sale of Network Stock

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 items have been reclassified.

The breakdown of Regulatory Depreciation, in particular the value for 'Depreciation - No Standard Life' is as follows;

Depreciation - No Standard Life (\$'000)				
Asset Category	Different Life in Initial RAB ¹	Not in Sch A - LP ²	Not in Sch A - Other ³	Grand Total
Crossings	\$ 7	\$ 2	\$ -	\$ 9
Facilities	\$ 17	\$ -	\$ 2	\$ 19
Mains	\$ -	\$ 317	\$ -	\$ 317
Operational Assets	\$ -	\$ -	\$ 105	\$ 105
Services	\$ -	\$ 133	\$ -	\$ 133
Valves	\$ 2	\$ -	\$ -	\$ 2
Grand Total	\$ 26	\$ 452	\$ 107	\$ 585

Notes:

1 - Depreciation attributed to assets in the RAB which originate from the Initial RAB with a different Asset Life from Schedule A of the GDB IM Determination 2012. Facilities comprise District Stations which are all assigned 40 years in the RAB compared to 50 years for buildings and 35 years for pipework in Schedule A.

2 - Depreciation attributed to Low Pressure assets in the RAB, non of which are specified in Schedule A of the GDB IM Determination 2012.

3 - Depreciation attributed to assets (other than Low Pressure) in the RAB, non of which are specified in Schedule A of the GDB IM Determination 2012. Non-Network "Operational Assets" are not specified in Schedule A.

The Asset Lives which for Assets that are not listed in Sch A or that have Asset Lives different to that specified in Sch A are summarised in the following table.

Asset Category	Asset Life in RAB (years)
Crossings (IP, MP & LP)	
Rail	70
Bridge	40
Facilities (IP & MP)	
DRS (Pipework & enclosure)	40
Operational Assets (Non Network)	Varies between 3-20
Valves (IP, MP & LP)	
Valve Access	40
LP Assets (other than above)	Same as MP Assets in Sch A

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

8.3 Income of \$157K for revaluation as per schedules 3 and 4.

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)

Other temporary differences relate to leave balances but were immaterial so chose not to include these in the schedule.

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 interest payments and advances to and from the shareholder Wanganui Gas Limited.

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

As the classifications stated in Schedule 5d are different to that previously required by the Commission for both 2010 and 2011 under its s53ZD Notices, it is not possible to provide an assurance that items have not been reclassified as the classifications themselves have changed. However it can be confirmed that the costs incurred have been applied consistently with the classifications that applied for each year and that there has been no change to the allocation of costs to Operational and Capital Expenditure.

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 items 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.

As stated in Boxes 8 and 12 it is not possible to provide an assurance that items have not been reclassified as the classifications themselves have changed. However it can be confirmed that the costs incurred have been applied consistently with the classifications that applied for each year and that there has been no change to the allocation of costs to Operational and Capital 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

As stated in Boxes 8 and 11 it is not possible to provide an assurance that items have not been reclassified as the classifications themselves have changed. However it can be confirmed that the costs incurred have been applied consistently with the classifications that applied for each year and that there has been no change to the allocation of costs to Operational and Capital Expenditure.

At the time of compiling the 2013 Schedules it was discovered that Schedule 11b: Report On Forecast Operational Expenditure which was previously disclosed along with GasNet's Asset Management Plan in July 2013 was incorrect both in terms of the bottom line totals as well as the allocations to the categories. Whilst the brief in preparing the forecast for each year was to ensure consistency and compliance with past disclosures and current and future company forecast information, the information that formed the basis of the forecast disclosures was wrong. Unfortunately we are unable to reconcile the errors or explain how such errors were made as the workings were lost shortly after publicly disclosing the Asset Management Plan when transferring the files via a USB memory stick. Whilst this would have not changed the fact that the disclosures were incorrect we would have at least been able to identify what went wrong.

The error only relates to the Operational Expenditure Forecasts as the Capital Forecasts are correct.

Accordingly the Operational Expenditure Forecast has been corrected and an updated version is shortly to be provided in the publicly available Asset Management Plan on the GasNet website. The corrected Schedule 11b: Report On Forecast Operational Expenditure has also been provided within the 2013 Schedule's and the information contained within is consistent with the Forecast expenditure in Schedule 7. An extract of the Operational Expenditure Forecast for 30 June 2013 (in nominal dollars) has been provided below which highlights the significant disparity between the previous erroneous forecast information and the latest corrected information.

	Correct (As Disclosed 18/12/2013)	Incorrect (Previously Disclosed with AMP 18/07/2013)
	<i>Current year CY</i>	<i>Current year CY</i>
	30 Jun 13	30 Jun 13
	\$000 (in nominal dollars)	\$000 (in nominal dollars)
Operational Expenditure Forecast		
Service interruptions, incidents and emergencies	40	10
Routine and corrective maintenance and inspection	81	514
Asset replacement and renewal	-	-
Network opex	121	524
System operations and network support	665	20
Business support	858	868
Non-network opex	1,523	888
Operational expenditure	1,644	1,412
Subcomponents of operational expenditure (where known)		
Research and development	-	-
Insurance	178	137

The Line Charge Revenue Target has been disclosed from GasNet's Pricing Methodology (effective 1 October 2012) as published on its website and consistent with 2.4.3(3) of the IDD. However, consistent with the IM's, DPP and ID Determinations, the revenue for the disclosure year in Schedule 8 relates (for GasNet) to its financial Year ended 30 June, whereas the Line Charge Revenue Target Forecast in Schedule 7 relates to the Pricing Year which ends 30 September. There does not appear to be any latitude to provide information which is aligned with either year.

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 down on forecast (when compared to the same period being the 2012/13 financial year) by \$145k. This was due predominantly to the mild winter and spring seasons resulting in a reduction of 5.1% in annual consumption by the consumers for whom the retailers are charged a variable throughput charge based on the gas consumed.

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

The M6 Load Group consumers has been disaggregated to those connections which were recorded as Active during the year (shown as 'M6 (Active)' in Schedule 8) and those that were Inactive (shown as 'M6 (Inactive)'). This is consistent with GasNet's Pricing Methodology and provided for compliance with the DPP when charges for the M6 (Inactive) cease from 1 October 2013.

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

- Units of interruption used in all SAIDI calculations are ‘minutes’, in accordance with the new definition in the Commission’s Issues Register
- Class B Planned Interruptions – this is based on information historically collated each month for reporting purposes by the Engineering Manager and Engineering Supervisor. As the information collated cannot be easily traced back to core data it has proven difficult for GasNet to provide the traceability required by the Audit for the Audit Assurance. Reconstruction of the monthly data by identifying the historic information was considered, but as the information collected was influenced by knowledge of the planned activities completed each month it would not necessarily improve the identified issue. Having identified the deficiencies in the process procedural changes will be made to ensure the problem is eliminated in future disclosure years.
- Class C Unplanned interruptions - Interruption duration data includes standard durations for events that are performed regularly and within consistent time frames. Eg Interruption durations for Service valve changes are 30 minutes and Riser changes are 60 minutes. The exact interruption times are not available as they were not recorded at the time the work was undertaken. In the absence of the exact interruption times standard times have been applied which are intentionally overstated (in GasNet’s view). Whilst this is not ideal it is not possible to obtain the required data as it was not recorded. This issue is being addressed as a result of the identified deficiency and will be corrected for future disclosures. The issue has also been identified and acknowledged in the Independent Assurance Report prepared by Audit New Zealand.
- Class I Unplanned interruptions caused by third party – with few exceptions time based records are available and have been applied in the calculation for these interruptions. The required information was extracted from GasNet’s KernMobile work management system which is the core information system for field based work activities. Whilst GasNet is confident that the information is accurate the inability in most instances to validate information held in this system with other records has proven difficulty in passing audit scrutiny. In recognising this, further work will be undertaken on systems to eliminate this issue for future.
- For all Unplanned Interruptions where the Fire Service has requested that GasNet attend a house fire and the supply has been disconnected for reasons other than a network related issue such as for public and fire safety reasons or where there may have been possible damage to the consumer owned installation/appliances, no network interruption has been recorded.

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	\$185,746.06
Vehicle Insurance	\$2,920.12
Other Company Policies	\$15,805.62
Total	\$204,471.80

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

Company Name	<u>GasNet Limited</u>
For Year Ended	<u>30 June 2013</u>

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-14	2.01%
Jun-15	2.21%
Jun-16	2.11%
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%

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-14	2.01%
Jun-15	2.21%
Jun-16	2.11%
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%

Company Name	GasNet Limited
For Year Ended	30 June 2013

Schedule 14b Mandatory Explanatory Notes on Transitional Financial 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 the transitional financial information disclosed in accordance with clause 2.12.1.
2. This Schedule is mandatory—GDBs 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.

Initial RAB adjustment (Schedule 5h)

3. In the box below, provide explanatory comment on the GDB’s initial RAB adjustments, as disclosed in Schedule 5h (Transitional financial information), summarising the adjustments made in accordance with clause 2.2.1 of the IM determination.

Box 1: Initial RAB adjustments

The calculation of the Regulatory Asset Base (RAB) was restated from 2009 as a starting point with the relevant adjustments made to amend the RAB in accordance with the Commerce Commission letter of 21 December 2012 which stated that the Commission decided to disallow \$0.038m (2008 dollars) for an “Impairment credit from EV” (where EV means Economic Value). This adjustment was also confirmed in GasNet’s submission in response to the Commissions s53ZD Notice of 17 December 2012.

The \$6k “Adjustment resulting from asset allocation” in the 2012 RAB is the balancing amount that has occurred due to a combination of rounding errors and minor errors discovered in reworking the 2010 and 2011 RAB to make the above adjustment.

The RAB model used by GasNet was developed with urgency to satisfy the Commissions s53ZD Notice of June 2012 which also resulted in GasNet resubmitting its previously disclosed 2010 RAB information based on this new model. The RAB is an excel based model which provides the financial and non-financial attributes for each individual asset with consistent with the Input Methodologies. From the RAB Master Register, Pivot tables and filters provide the wide range of information required to populate the Commissions schedules. With some 22,000 individual items the annual roll forward process requires management of these items where there have been physical changes to assets and administrative changes associated with the asset registers. This annual roll forward and the need to micro-manage the RAB model down to each individual asset level, combined with the urgency under which they were prepared and as the first time GasNet has been required to provide such information, has inevitably resulted in the occurrence of minor errors requiring correction.

Tax effect of other temporary differences

4. In the box below provide explanatory comment on the tax effect of other temporary differences for the disclosure years ending 2010, 2011, and 2012 (as reported in 5h(vii) of Schedule 5h).

Box 2: Commentary on tax effect of other temporary differences (disclosure years 2010, 2011, and 2012)
Other temporary differences relate to leave balances but were immaterial so chose not to include these in the schedule.

Related party transactions

5. 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 3: Change in regulatory profit and ROI due to change in treatment of related party transactions
No change is attributable to the treatment of related party transactions.

Asset allocation (transitional)

6. 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 for disclosure years 2011 and 2012.

Box 4: Commentary on asset allocation
No items were reclassified.

Company Name	<u>GasNet Limited</u>
For Year Ended	<u>30 June 2013</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

Schedule 10b: Report on Network Integrity and Consumer Service

- Total length of pipeline is the sum of length of mains and length of services.
- The “Number of third party Damage events/ total length of pipeline” is disclosed consistent with the schedule header (ie based on km) which is inconsistent with the preceding two items which are based on 1000 km.
- The “Number of telephone calls to emergency numbers answered within 30 seconds / total number of calls” includes data from 25 October 2012 to 30 June 2013 only as calls were not logged prior to 25 October 2012. Includes only calls answered or abandoned within 30 seconds. 249 Calls redirected do not have answering time information available and are not included.