



Statement of Intent

2020–2023



Installation of the 66kV conductors across the Oreti River

Winton to Centre Bush Helicopter stringing

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1. Introduction

This Statement of Intent (SOI) sets out the Board's overall intentions and objectives for The Power Company Limited (TPCL) and its group for the year ending 31 March 2021 and the two succeeding years.

The SOI has been prepared in accordance with the TPCL Constitution and is a public statement of the activities and intentions of TPCL incorporating its subsidiaries, joint ventures and associated entities. It sets out the nature and scope of activities intended to be undertaken, its objectives and key performance indicators by which TPCL's performance can be measured.

TPCL is a profit oriented limited liability company that was incorporated on 30 October 1990. It is owned by the customers connected to its network. The Southland Electric Power Supply Consumer Trust (SEPSCT) exercises ownership rights on behalf of these customers.

The TPCL Board is committed to ensuring the interests of the Trust's beneficiaries, the customers connected to the TPCL network, are met by providing effective governance, oversight and strategic direction for the company.

The future involves delivering improvements in customer service, securing a sustainable cost base and deploying efficient new technologies.

The Statement of Intent indicates TPCL will continue its high focus on customer service, safety, reliability, efficiency and power quality, which is managed and delivered through the Business Plan.

The world is currently experiencing a pandemic caused by a new strain of coronavirus; COVID-19 which is spreading around the world. This is already affecting our supply chain and the availability of resources to execute our planned works programme. This Statement of Intent assumes the pandemic will be controlled and that it will not have a significant effect on the availability of skills, equipment and material. Should this not be the case, the Statement of Intent will be subject to change.

2. Corporate Overview

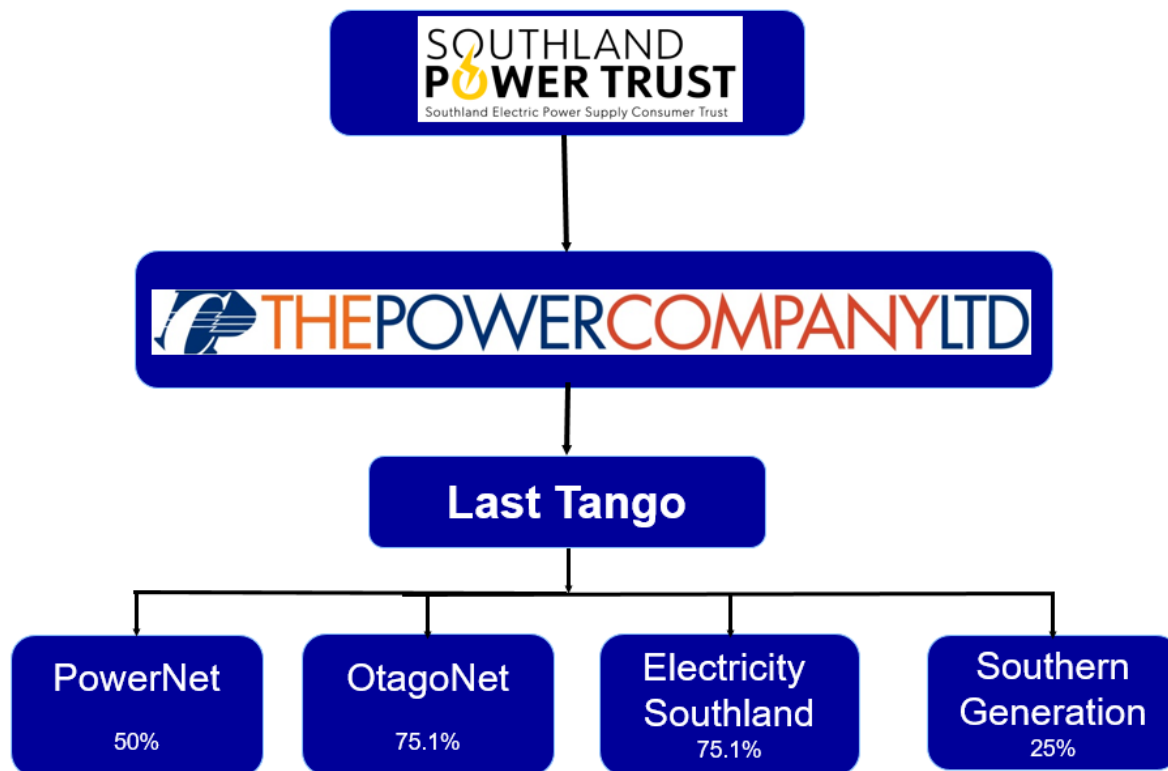
2.1 The Power Company Limited

- Large, provincial electricity distribution network
- Owned by the customers connected to the TPCL network
- The SEPSCT exercise ownership rights on behalf of these customers
- Owner of the electricity distribution network and advanced metering assets in Southland and West Otago
- Low customer density per kilometre of line
- 110,000 poles, 37 substations, 36,000 customers, 8,883 km of lines and 11,051 distribution transformers



2.2 Company Structure

- The diagram below provides a summary of the TPCL company structures, including the joint venture interests

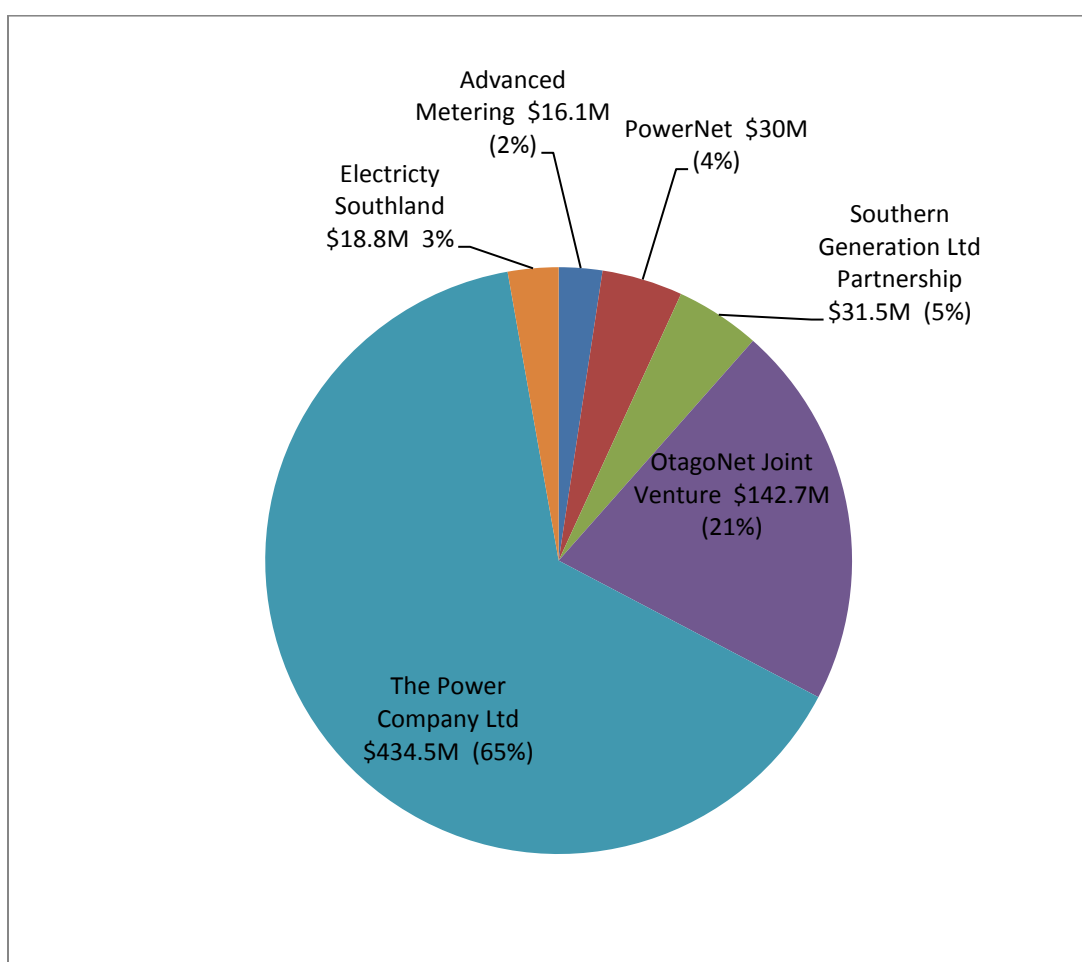


2.3 Investment Diversification

Outside of TPCL core electricity distribution business, TPCL together with its joint venture partners, jointly own a number of other electricity sector businesses:

- PowerNet Limited (PNL)**
A 50% owned electricity distribution management company. It has long term network management agreements in place for TPCL, Electricity Invercargill Limited (EIL), OtagoNet Joint Venture (OJV) and Electricity Southland Limited (ESL) electricity distribution networks. In addition, they identify, research and inform about other relevant energy investments for TPCL and its other 50% shareholder, EIL.
- OtagoNet Joint Venture**
A 75.1% owned electricity distribution business in rural Otago covering Balclutha, Milton, Ranfurly and Palmerston

- **Electricity Southland Limited**
A 75.1% owned electricity distribution business in Central Otago covering Frankton and Wanaka
- **Southern Generation Limited Partnership**
A 25% owned renewable electricity generation business, with wind and hydro generation sites throughout New Zealand. In conjunction with Electricity Invercargill Limited, TPCL equally owns Roaring Forties Energy Limited Partnership (RFELP). Southern Generation is owned 50% by RFELP and 50% by Pioneer Energy
- **Advanced metering**
Provision of smart meters on the TPCL network allow the company to provide improved metering services to customers with additional network benefits such as improved information relating to network quality.



3. Industry Landscape

3.1 The Electricity Industry

TPCL, like other electricity distribution businesses in New Zealand, is regulated by the Electricity Industry Participation Code (EIPC) administered by the Electricity Authority. The Code sets out the duties and responsibilities that apply to industry participants and the Authority. Generation, transmission, distribution and retailing are regulated.

The Electricity Network Association (ENA) is the industry membership body that represents the local electricity distribution businesses. The ENA guides the development of policy surrounding the electricity distribution sector. It also interacts with Government agencies on behalf of its members.

Transpower is the State Owned Enterprise that owns over 12,000 km of high voltage transmission lines and more than 170 substations that make up the National Grid. Once this high voltage electricity reaches TPCL grid exit points at Gore, Edendale, North Makarewa or Invercargill, PowerNet takes over responsibility for the safe distribution of electricity. PowerNet is 50% owned by TPCL.

3.2 Industry Regulation

Commerce Commission

Electricity Distribution Businesses (EDB) such as TPCL, as natural monopolies, are subject to economic regulation under Part 4 of the Commerce Act. The Commission has developed a set of rules to regulate the sector called Input Methodologies.

TPCL is amongst a group of 12 Trust owned EDB's that are not fully regulated but are subject to Information Disclosure regulation (regulatory reporting and planning). The TPCL network is not subject to the Default-Price Quality Path (DPQP) regime. This means TPCL is able to make normal commercial decisions without being influenced by the impacts of regulatory [dis]incentives that have developed under the DPQP regime.

TPCL's group is subject to the DPQP regime with OtagoNet Joint Venture (OJV) investment being one of the 17 fully regulated EDB's.

The Commission has reset the price and quality paths for non-exempt EDB's effective from 1 April 2020. TPCL is concerned the Commission through a mixture of low regulatory returns, including out of date regulatory inputs (such as the Post Tax Market Risk Premium (PTMRP) being 0.5% lower than that proposed in development of Input Methodologies for the fibre sector), coupled with the Commissions investment disincentives and continual pressure of quality limits is not providing EDB's with an appropriate balance between network quality, customer service and giving EDB's and investors an incentive to invest. An inappropriate balance that reduces revenues to an unsustainable level risks a reduction of investment in network capital and maintenance expenditure and probable deterioration in the reliability of the service to customers.

Of TPCL's assets and investments 78% are held outside the fully regulated sector (only the OtagoNet investment is subject to price quality regulation). TPCL accordingly manages its debt profile under a treasury policy that reflects the areas of its asset investment. The hedging profile under the treasury policy results in TPCL having a more consistent and different cost of debt than that calculated by the Commission which is based on fluctuating five year Government bond rates for a narrow three month window prior to each regulatory period.

TPCL has calculated its weighted average cost of capital (WACC) for EDB investments based on its own costs and views of the risk free rate, debt premiums, debt issuance costs and the PTMRP; these materially exceed the Commissions WACC estimates used for their 1 April 2020 reset.

As discussed in the asset management plans within the TPCL group, due to the financial impact of the reset on price and quality paths, expenditure has to be curtailed to below the allowable levels to manage the cashflows of the utilities. This will place severe pressure on maintaining service levels to within the quality targets and on maintaining asset health. The overall risk profile of the utilities will increase and the reset regulatory objective of “no material deterioration” will have to be interpreted in its widest sense. Unplanned SAIFI and SAIIFI targets are not expected to be achieved in the later years of the 2020-25 reset period.

TPCL and OJV are both required to meet the verification requirements of the recently introduced Related Party Input Methodology that affects transactions with related party entity PowerNet.

PowerNet acts as agent to TPCL and OJV and also provides network management and field services to both EDB's.

Electricity Authority

The Electricity Authority's statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of customers. The Authority is presently focusing on Transmission Pricing Methodology, distributed generation and distribution pricing.

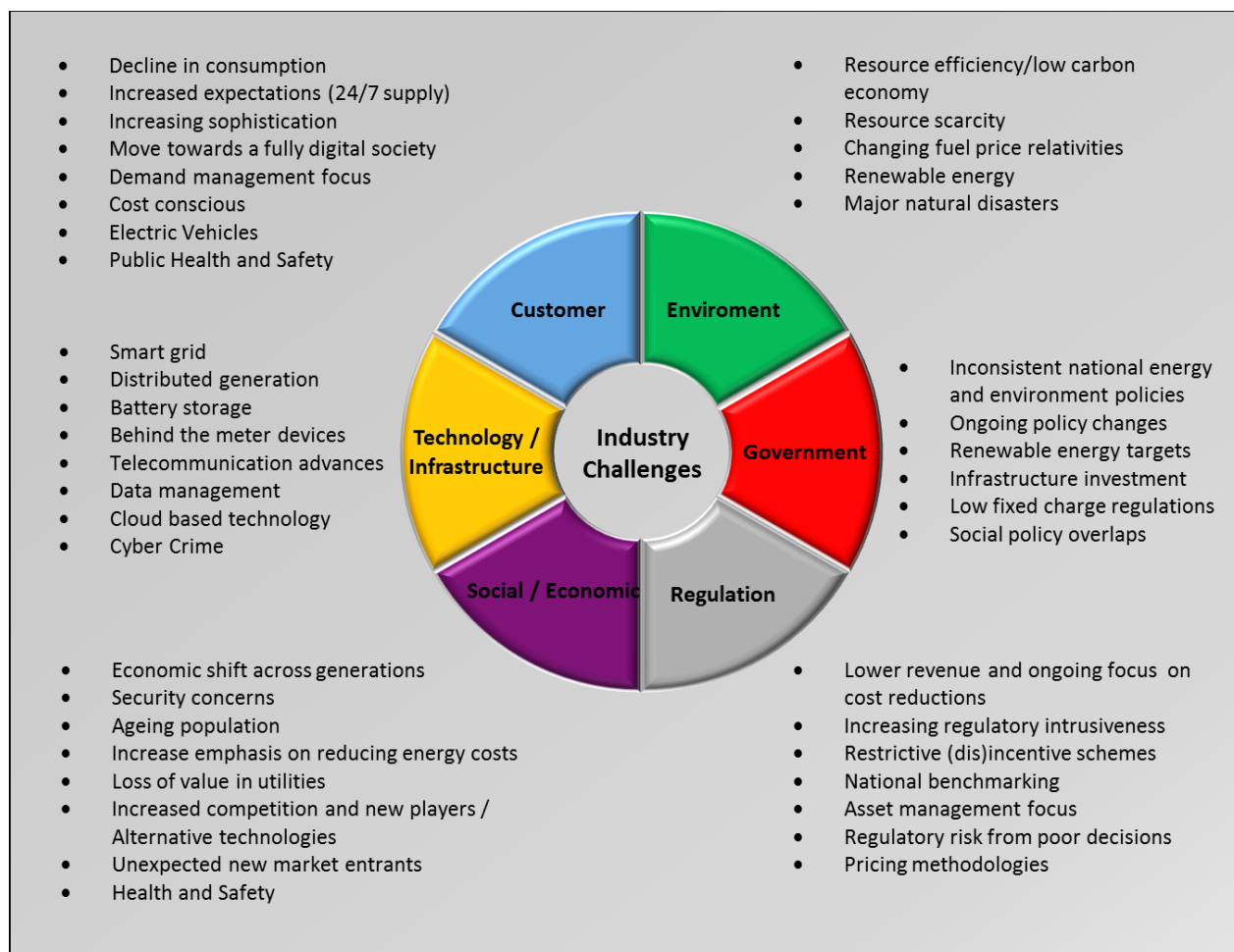
The review of the low fixed charge regulations is being undertaken by the Ministry of Business, Innovation and Efficiency in conjunction with the electricity retail and distribution sector. This review is imperative to the introduction of a new pricing methodology.

TPCL while supportive of the Authority's objectives is concerned about the consultation process, potential unintended consequences, lack of consideration of other statutory requirements and the increase in regulatory risk that some of the decisions that the Authority is making have resulted in. This includes (but not limited to), recent decisions with distributed generation and avoided cost of transmission,

TPCL will continue to work with the Authority to achieve more equitable outcomes for the sector for the long term benefit of customers.

3.3 Industry Challenges

TPCL continues to replace and upgrade assets, adding additional network capacity where there is a customer need. The use of current and emerging technology is also very important to these investment decisions and will become increasingly important.



Electricity Consumption Trends

Much of the TPCL network area has at best static population and current muted economic activity. But the Government incentivisation of electric vehicles by measures such as exemption from road user charges or their directive for a low carbon economy may positively impact consumption and therefore network use.

A rapid improvement in energy efficiency whether in industrial processes or domestic demand, means a significant challenge for TPCL is how to anticipate what consumption dynamics might be, so network decisions are well founded. Towards this aim, data from the smart meters installed in TPCL network helps monitor consumption patterns and assess asset utilisation levels, which enables data-driven investment and operational decisions. Market research on technology trends, and analytic and visualisation tools are being developed for forecasting range of future scenarios to support strategy and planning.

Customer centric solutions will be key to ensure that customers value to the quality and reliability of service the network delivers. Annual customer surveys performed by independent professional research company provides feedback from range of customers on performance, perception and uptake of new energy technologies.

TPCL are involved in a Smart Energy Home project, in conjunction with PowerNet. The smart energy home is equipped with new energy technologies and information tools that aim to make living there more energy efficient including:

- Solar generation from PV panels, an inverter, battery storage, an electric vehicle and an electric vehicle charging station.
- The home is insulated, has LED lighting, heat pumps for space and water heating, and temperature and humidity sensors. A real time visual monitoring system is installed showing electricity generation and consumption patterns of the household and major appliances.
- There are six different variable tariffs across a day to incentivise energy usage during cheaper periods.

The objectives of the smart energy home are to:

- Learn about customer energy usage behaviour, technology performance, costs and benefits
- Develop understanding of possible effect on the network business and assets of greater uptake and control of new energy technologies
- Use the learnings to support, engage and inform customers, and develop appropriate technology connection standards for safety, reliability and efficiency

The first and second year of the smart energy home have had different tenants to help TPCL develop understanding of changing customer behaviour, preferences, and energy usage patterns based on incentives and information.

Revenue – Pricing

TPCL wants to ensure equitable charging amongst its customers and together with the EDB sector is currently considering options how to best recover its costs from customers through pursuing pricing reform.

The Electricity Authority has directed EDB's to introduce a new pricing methodology which TPCL intends to introduce from 1 April 2021 following consultation with customers, its owners the SEPSCT and electricity retailers.

The intention of any pricing reform must assure that the network can be maintained to meet reliability standards, give sustainable returns to the owners but is cognisant of a customer desire to utilise pricing options and innovative technology.

Government Policies

TPCL noted that in the lead up to the 2017 general election all parties were supportive of the removal of the poorly designed low fixed user charge regulations.

Where Government intends to deliver support for particular socio-economic groups, this should be delivered through social policy, not imposed on the electricity industry and therefore creating significant distortions and incentivising poor investment decisions. This has happened with the low fixed user charge regulations. They need to be repealed.

Government policies need to be targeted and relevant to the sector.

The 2017 Labour led Coalition Government review of the electricity sector has been concluded with Government taking on board the majority of the recommendations. TPCL will monitor proposed changes to position itself for opportunities and risks that arise.

A recommendation from the review is for the low fixed user charge regulations to be addressed which is welcomed as it is imperative to the introduction of the new pricing methodology

4. Strategy

4.1 Core Business

To commercially manage all assets, business units, products and investments within and associated with the Electricity Sector as a successful business for the shareholders of TPCL.

4.2 Vision Statement

To be recognised as the leading consumer trust owned electricity sector company and an excellent corporate citizen.

4.3 Commercial Objectives

TPCL operates as a successful commercial business. We strive to be an efficient and effective operation within the electricity sector and provide stakeholders with an appropriate balance of;

- Competitive pricing
- Leading public and workplace safety performance
- Customer service focus
- Sustainable social and environmental impacts
- Commercial return on investment

4.4 Company Objectives

4.4.1 Ensure workplace and public safety is paramount and that its network assets and operations do not present a safety risk to members of the public, their property, PowerNet staff and contractors.

4.4.2 Manage its operations in a progressive and commercial manner.

4.4.3 Achieve an efficient and effective operation within the electricity sector and provide its customers with competitive prices and optimised service by:

- Ensuring through PowerNet, that sufficient resources are available to satisfy its service requirements,
- Achieving a return for all its electricity distribution assets nearer to the Weighted Average Cost of Capital prior to customer discounts.
- Ensure network reliability is improved over time, through targeted network reliability improvement initiatives.

4.4.4 Continuing to grow its commercial relationship with its joint venture partners, EIL and Pioneer Energy Limited.

- Continuing to strengthen relationships with appropriate companies with a view to achieving economies of scale through strategic alliances or associations.

4.4.5 Investigating non-regulatory activities and investments to increase shareholder value including generation, electricity distribution and new, relevant investments in the electricity sector.

4.4.6 Pursuing alternative energy technologies in the best interests of shareholders and customers.

4.4.7 To provide the electrical infrastructure to support decarbonisation of industry, transportation and other sectors.

4.5 Deployment of Company Objectives

PowerNet Company Purpose

TPCL contracts PNL to manage its business activities.

PNL is integral to TPCL's success, and therefore the PNL Shared Vision is most relevant to TPCL.



Safe, Efficient and Reliable

The company endorse the same Safety Always Culture as PNL.

Safe, efficient and reliable power to communities drives the company's commitment to its customers.

TPCL continues to identify its customers' needs. The ability to respond to changing customer demands is essential to retain grid-connected customers in an ever changing energy market.

The company strives to create a lean and efficient organisation that delivers improved customer service, long term sustainability around network pricing and stable long term returns to its shareholders.

The company explores investments in a contemporary network that provides flexibility both in the home and in industry. It supports the integration of distributed energy resources without compromising grid security.

Innovation

The company continues its research into developing new products and services which complement the existing network and provide customers with greater choice and control.

Adapting the business where commercially viable to newer, smarter technologies, or changing customer needs and requirements is essential.

For example this includes but is not limited to;

- Remote Area Power Supply (RAPS)
- Electric Vehicles (EVs)
- Battery Storage
- Solar
- Peer to Peer trading

Community

TPCL supports the wider community as follows:

- Provides customers of the TPCL network with a line charge discount
- Supports Southland Warm Home Trust insulation and heating installations in the Southland and West Otago region
- Through PowerNet's partnership with St John by;
 - Donating emergency first aid training (through St John) to community groups, including first aid training for all school children aged 15 and under
 - Donating defibrillators and other equipment to our communities

Risk Management

TPCL, through PowerNet, has a comprehensive risk management framework in place. Two areas of particular focus and development at present are:

Insurance Captive

TPCL has deferred the decision to establish an insurance captive due to revenue pressures from the Commerce Commission's 2020 price reset for regulated businesses.

Cyber Security

Cyber fraud training has been provided to the Board and all staff under the PowerNet Limited umbrella of companies, thereby minimising the risk of cyber-attack on TPCL network.

Cyber fraud testing and training is ongoing within the business, including auditing, information technology and risk management. Heightened controls around information technology has resulted in increased security for the business. Deloitte, as independent auditors, have and continue to be engaged to undertake cyber fraud training within the company. Other risk mitigation measures are also undertaken, including penetration testing and system segregation and firewalls.

4.6 Responsibilities of the Board

Directors are to act in good faith, to comply with the Companies Act 1993 and their Constitution.

TPCL Board of Directors has and may exercise all the powers necessary for directing and supervising the management of, the business and affairs of TPCL, except to the extent that their constitution or the Companies Act 1993 expressly requires those powers to be exercised by the shareholders or any other person.

The company's shareholders appoint the directors to govern and direct the company's activities. The board is the overall and final body responsible for the proper direction and control of the company's activities and decision making. The board's responsibilities include areas of stewardship such as:

- establishes and oversees the company strategy
- commercial performance
- business plan and statement of intent preparation and approval
- financial and dividend policies
- company policies
- delegations of authority
- reports to shareholders
- compliance with applicable law
- stakeholder and external party relationships
- management oversight and development
- identifying and managing business risks and opportunities
- internal control systems
- integrity of management information systems
- leads and sets the health and safety policy

5. Performance Measures

5.1 Financial

	2020/21	2021/22	2022/23
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EBIT% - Percentage Earnings Before Tax and Interest on Assets Employed

EBIT %	3.13%	3.07%	3.13%
EBIT % (excluding Discount)	4.12%	4.01%	4.03%

NPAT% - Percentage Tax Paid Profit on Equity

NPAT %	2.42%	2.42%	2.55%
NPAT % (excluding Discount)	4.08%	4.14%	4.32%

GEARING RATIO

% Gearing Ratio	41.71%	41.06%	40.30%
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INTEREST COVER RATIO (TIMES COVERED)

Interest Cover Ratio	4.70	5.04	5.35
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5.2 Supply Quality

	2020/21	2021/22	2022/23
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System Average Interruption Frequency Index (the average number of times each customer connected to the network is without supply)

SAIFI	2.84	2.86	2.87
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System Average Interruption Duration Index (the average total times in minutes each customer connected to the network is without supply)

SAIDI	190.7	196.7	197.5
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5.3 Health & Safety

PowerNet is contracted to TPCL to manage operations. TPCL employ no staff. Therefore the PowerNet Health and Safety Performance targets are relevant to TPCL.

	2020/21	2021/22	2022/23
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Total Recordable Injury Frequency Rate – for PowerNet employees and contractors

TRIFR	4.20	3.50	3.00
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6. Shareholder Information

6.1 Proposed Distributions

Dividend

The operating expenditure of the Company's shareholder is offset at year end by the interest payable by the Company to a Loan from the Shareholder. It is therefore not intended to make any dividend payments.

6.2 Information to be reported

The Company will report on a six-month and annual basis, in the form set down by legislation. An audited Annual Report is required to be delivered to the Shareholder with the opportunity to assess the performance of the Company and the value of the investment.

Un-audited half-yearly accounts will include Statement of Comprehensive Income and Financial Position, together with such other supporting information as may be required to enable an informed assessment of the Company's performance during the reporting period, as agreed between the Shareholder and the Directors.

In addition, a monthly Consolidated Summary report will be provided to the Shareholder showing the Financial Performance of the Group together with The Power Company Limited's Lines Interruptions Reports.

Transactions with related parties primarily consist of network asset construction and maintenance, administration and management services.

All related party transactions are eliminated in the preparation of the Annual Financial Statements.

6.3 Acquisition Procedures

Except by a special resolution of shareholders the Company may not enter into a major transaction.

A major transaction includes the acquisition of, or an agreement to acquire assets, the value of which are more than half the value of TPCL's assets before the acquisition.

6.4 Board Estimate of the Value of Shareholder's Investment

The Directors estimate the commercial value of the shareholder's investment in the Group to be at least the value of shareholder's equity reported in TPCL's financial statements and Statement of Intent.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment, however this may be subject to future adverse consequences of any central government decision to place the company under the regulatory provisions of Part 4 of the Commerce Act.

6.5 Consumer Discount

Since 2001, the Company has provided a discount to consumers. The discount is typically credited to consumers in or around August each year, when consumers tend to have higher power bills.

The Company has committed one year in advance to the paying of discounts through the decision to post the discount alongside line charges and expects to continue paying consumer discounts, and for the amount of the discount for the period ending 31 August 2020 to be set based on the following principles (the amounts referred to exclude GST):

- (a) The projected total discount is \$7.7 million (excluding GST), although the total of the actual discounts paid may differ from \$7.7 million as a result of rounding, and/or of certain connections being ineligible for the discount although their usage is included in the total usage figures used in the calculations set out below
- (b) The total discount is allocated to customer groups in proportion to the customer group's contribution to total distribution revenue (eg, if the distribution revenue from non-domestic customers and domestic customers was equal (ie, 50% of the overall total was contributed by each customer group) then 50% of the total discount would be allocated to each customer group). The discount for each customer is then calculated for each customer group as follows:
 - (i) Non-domestic customers: the discount for each non-domestic customer will be proportionate to that customer's contribution to total distribution revenue for the non-domestic customer group. Eg, if distribution revenue for a given non-domestic customer represents 1% of the total distribution revenue for all non-domestic customers, then that customer would be credited 1% of the total discount allocated to non-domestic customers.
 - (ii) Domestic customers: the discount for each domestic customer will be proportionate to that customer's contribution to total distribution revenue for the domestic customer group, but taking into account only the variable component of distribution revenue (ie, the fixed component of distribution charges will not be taken into account).
- (c) Discounts will be credited to customers in their first electricity bill they receive from their retailer on or after 31 August.
- (d) The Company reserves the right not to pay any discount in exceptional circumstances resulting in a significant fall in revenue or a significant increase in costs in the period to which the discount relates or if the Company's financial circumstances are such that paying the discount would be inconsistent with the Company's legal obligations. Exceptional circumstances could include circumstances such as natural disasters, law changes or significant changes in the demand for, or supply of, electricity. Since introducing consumer discounts in 2001, the Company has provided discounts in all but one year.

The discount credited in August 2019 was \$8.8 million (including GST). This resulted in residential consumers receiving a credit for 2.01 cents per unit of their annual consumption, and in non-residential consumers receiving a credit for 1.13 cents per unit of their annual consumption and 15.98% of their fixed daily charge.

In the absence of any exceptional circumstances, the Company expects to continue paying consumer discounts over the next three years. The Company expects that the discount will continue to be based on the Company's Distribution Revenue (net of transmission costs payable to Transpower) and will be credited to consumers based on usage. Ongoing assessment of the appropriate level of discount is required.

6.6 Debt Management

TPCL's debt levels are managed taking into account financing covenants, the group's profit, depreciation, capital expenditure, discounts to customers and new investment plans

TPCL manages its refinancing risk through a range of maturity periods that include trading bank funding for a period from one to three years and United States Private Placements of up to eleven years.

TPCL's group holds investments in different classes of assets. Of these, a particular class of assets require replacement of a significant portion of their value as they approach the end of their economic lives. These classes of assets are predominately the renewable electricity generation and advanced meter asset types. TPCL recognises that where these classes of assets have been acquired via debt funding, a prudent approach is to repay the associated debt as the economic value of the asset diminishes throughout its life.

7. Statement of Accounting Policies

7.1 Accounting Policies

General Accounting Policies

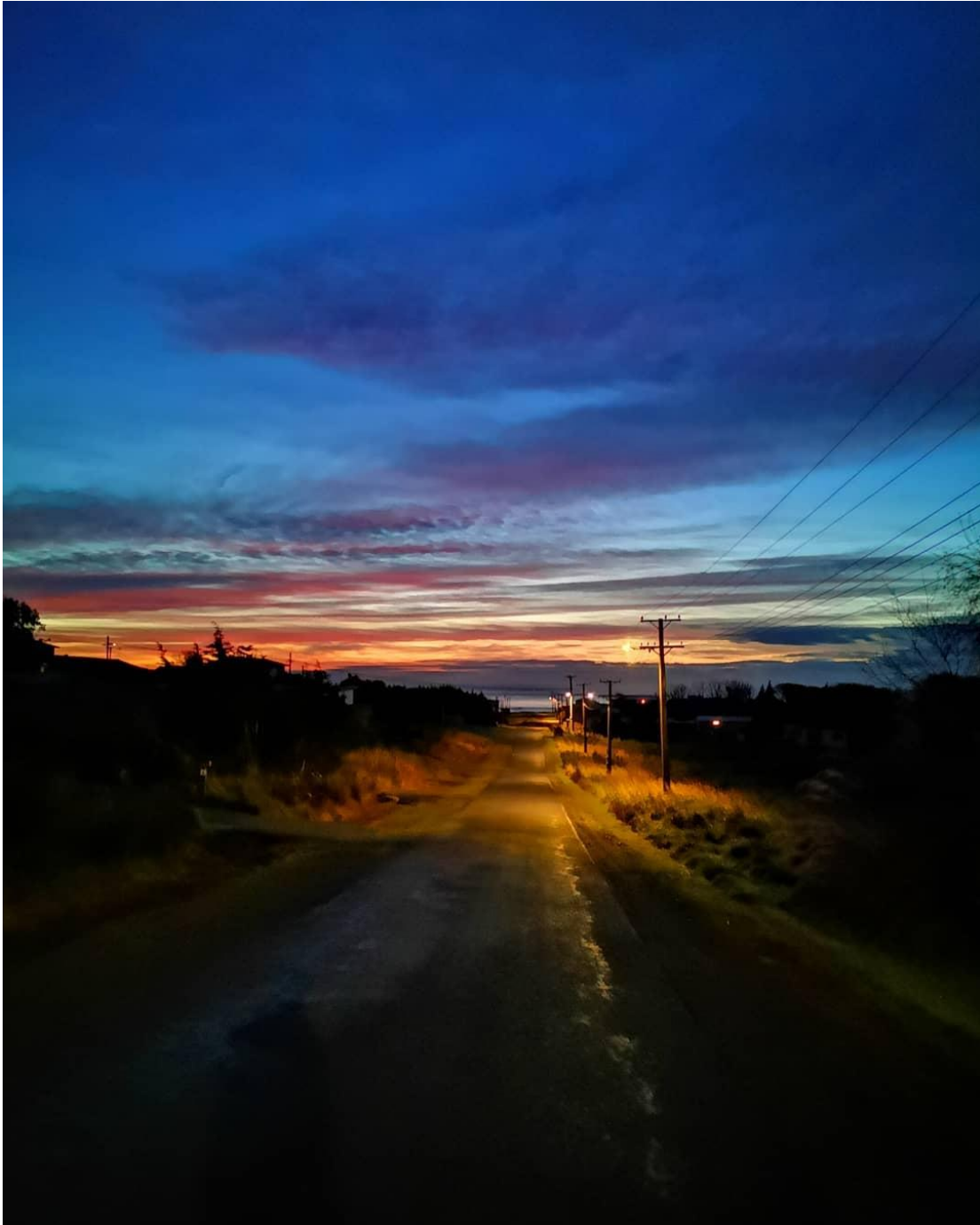
The Group's accounting policies comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and are consistent with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as applicable for profit oriented entities.

The Company is eligible and has elected to report in accordance with Tier 2 for profit accounting standards, NZ IFRS Reduced Disclosure Regime on the basis it has no public accountability and is not a large for profit public sector entity.

NZ IFRS standards are subject to change and therefore the Company's accounting policies are also subject to change during the period of the Statement of Intent.

Specific Accounting Policies

The specific accounting policies, which materially affect the measurement of financial performance and financial position, are fully listed in the Company's annual report.



Riverton



