

# **EIL**

***Electricity Invercargill Ltd***



*Transformer Replacement Metzger Street, Invercargill*

# **STATEMENT OF INTENT**

## **2020/2023**

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# 1. INTRODUCTION

This Statement of Intent (SOI) sets out the overall intentions and objectives for Electricity Invercargill Limited (EIL) and the EIL Group for the year ending 31 March 2021 and the two succeeding years.

The SOI has been prepared in accordance with the Energy Companies Act 1992 and takes into account the likely reporting requirements of EIL's shareholder Invercargill City Holdings Limited (ICHL) as required by the Local Government Act 2002.

The SOI is a public statement of the activities and intentions of EIL incorporating its subsidiaries, joint ventures and associate entities. It sets out the nature and scope of activities intended to be undertaken, its objectives and key performance indicators by which EIL's performance can be measured.

The SOI is prepared and forwarded as a draft for comment to ICHL on or before 1 March each year. After consideration of any comments from ICHL the SOI is finalised before 30 June each year.

The EIL Board is committed to ensuring the interests of the shareholder ICHL and the customers of EIL network, are met by providing effective governance, oversight and strategic direction over the affairs of the company.

EIL is a profit orientated limited liability company that was incorporated in New Zealand on 30 June 1991. The Company is a wholly owned subsidiary of ICHL. The EIL Group consists of EIL, its wholly owned subsidiary Pylon Limited, its interest in joint venture entities PowerNet Limited (PNL), OtagoNet Joint Venture (OJV), Roaring Forties Energy Limited Partnership (RFLP), Southern Generation Limited Partnership (SGLP) and its interest in associate entity, Electricity Southland Limited (ESL).

EIL is an Energy Company as defined by the Energy Companies Act 1992 and as such is specifically excluded from being a Council Controlled (Trading) Organisation as defined in the Local Government Act 2002.

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

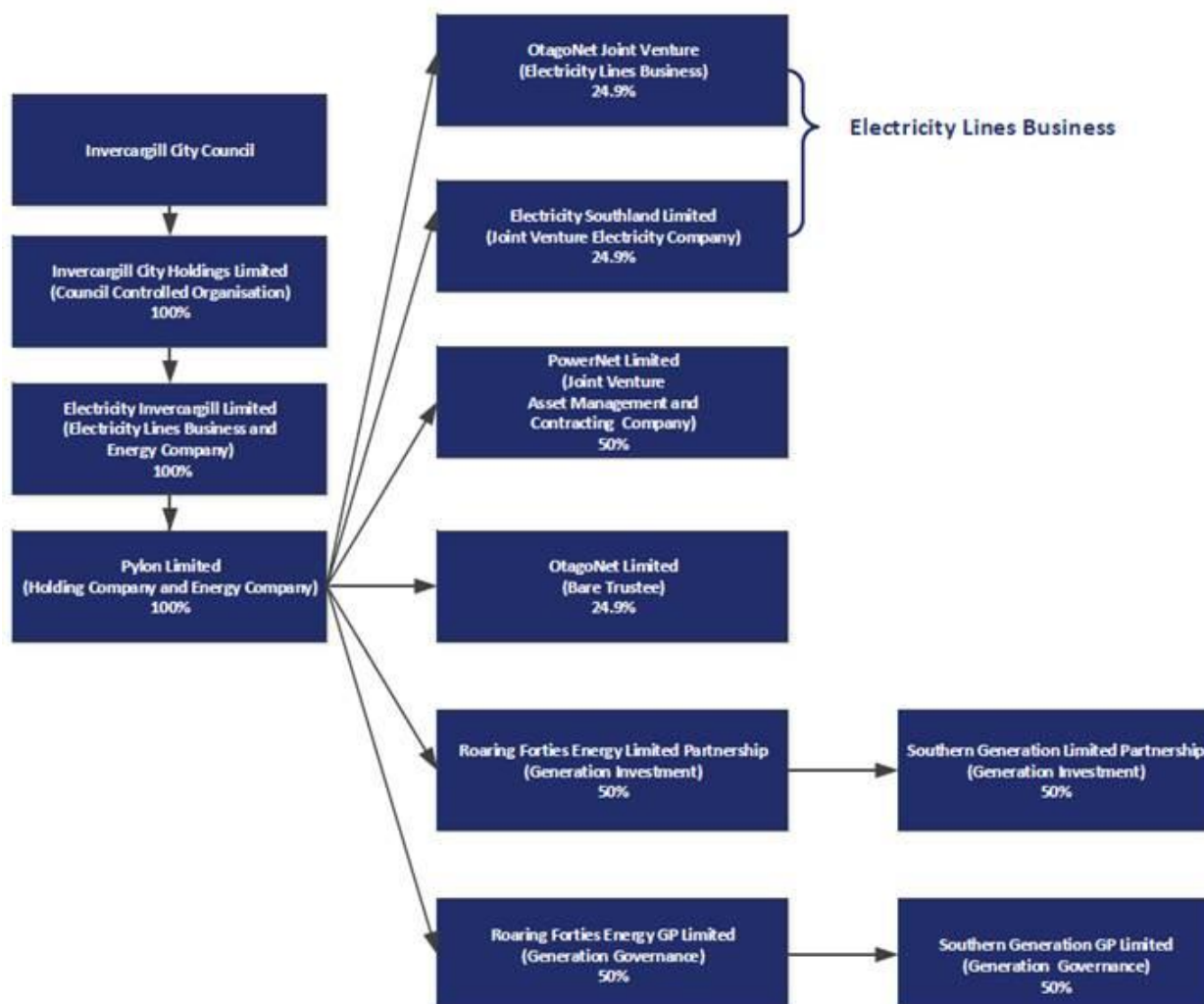
The world is currently experiencing a pandemic caused by a new strain of coronavirus; COVID-19 which is spreading around the world. This is already affecting our supply chain and the availability of resources to execute our planned works programme. This Statement of Intent assumes the pandemic will be 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 Electricity Invercargill Limited

- One of the most reliable electricity distribution networks in New Zealand.
- Supplies 17,416 customers – 90 percent of them residential.
- Owned by the Invercargill City Council through its subsidiary company ICHL.
- ICHL has a 100 percent ownership of EIL and receives an annual dividend.
- Owner of the electricity distribution network and advanced metering assets in Invercargill City and Bluff area.
- Highest ratio of underground cables to overhead lines of any electricity distribution business in New Zealand.
- Network includes 658km of predominantly underground cables, some overhead lines and 442 distribution transformers with a capacity of 151MVA.

### 2.2 Company Structure



## 2.3 Map of EIL Area



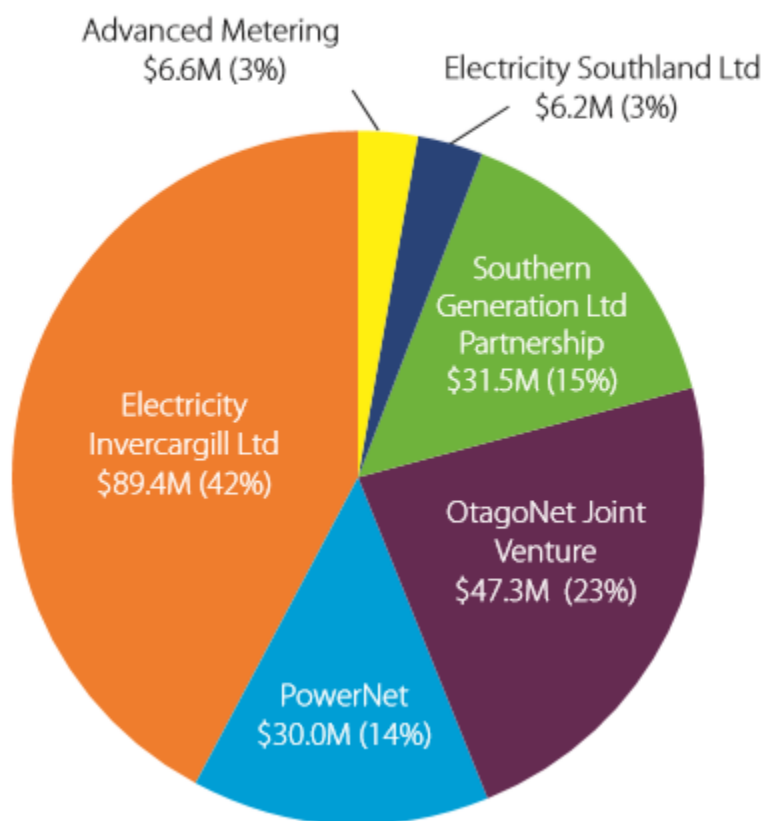
## 2.4 Investment Diversification

Outside of EIL's core electricity distribution business, EIL 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 EIL, The Power Company Limited (TPCL), OJV and ESL electricity distribution networks. In addition, they identify and realise other relevant energy investments for EIL and its other 50% shareholder, TPCL.
- **OtagoNet Joint Venture**  
A 24.9% owned electricity distribution business in rural Otago covering Balclutha, Milton, Ranfurly and Palmerston.
- **Electricity Southland Limited**  
A 24.9% 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 TPCL, EIL equally owns RFLP. SGLP is owned 50% by RFLP and 50% by Pioneer Energy.
- Advanced metering  
Provision of smart meters on EIL network. These meters replace the previous legacy meters and allow the company to provide improved metering services to customers. In addition, network benefits will be realised due to much improved information relating to network quality.

## Asset Investment \$211 million



## 3. INDUSTRY LANDSCAPE

### 3.1 The Electricity Industry

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

EIL continues to support PNL's work in the regulatory environment via the Electricity Networks Association's (ENA) working groups. These groups proactively provide industry direction in areas that include the sectors two regulators, the Commerce Commission and the EA. Issues include tree regulations, distribution pricing changes, input methodologies, transmission pricing issues and low fixed charge regulations.

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 EIL grid exit points at Invercargill, PNL takes over responsibility for the safe distribution of electricity. PNL is part owned by EIL.

### 3.2 Industry Regulation

#### Commerce Commission

Electricity Distribution Businesses (EDB) such as EIL, as natural monopolies, are subject to economic regulation under Part 4 of the Commerce Act. The Commission has developed a set of rules (regulatory methodologies, rules, processes, requirements and evaluation criteria) to regulate the sector called Input Methodologies (IM).

EIL is amongst a group of 17 EDB's that are non-exempt. IMs that apply to non-exempt EDBs are the Information Disclosure regulation (regulatory reporting and planning) and the Default Price-Quality Path (DPP)/ Customised Price-Quality Path (CPP) regime.

The IMs were last reviewed by the Commission in December 2016, the next review is scheduled for 2023. EIL notes the Commission did not factor a review of the Weighted Average Cost of Capital (WACC) IM.

The Commission has reset the price quality paths for non-exempt EDB's effective from 1 April 2020. A mixture of low regulatory returns, investment disincentives and continual pressure on quality limits is not providing a balance between network quality, customer service and giving EDB's and investors an incentive to invest.

EIL is required to meet the verification requirements of the recently introduced Related Party Input Methodology that affects transactions with related party entity PNL.

PNL acts as agent to EIL and also provides network management and field services.

# Electricity Authority

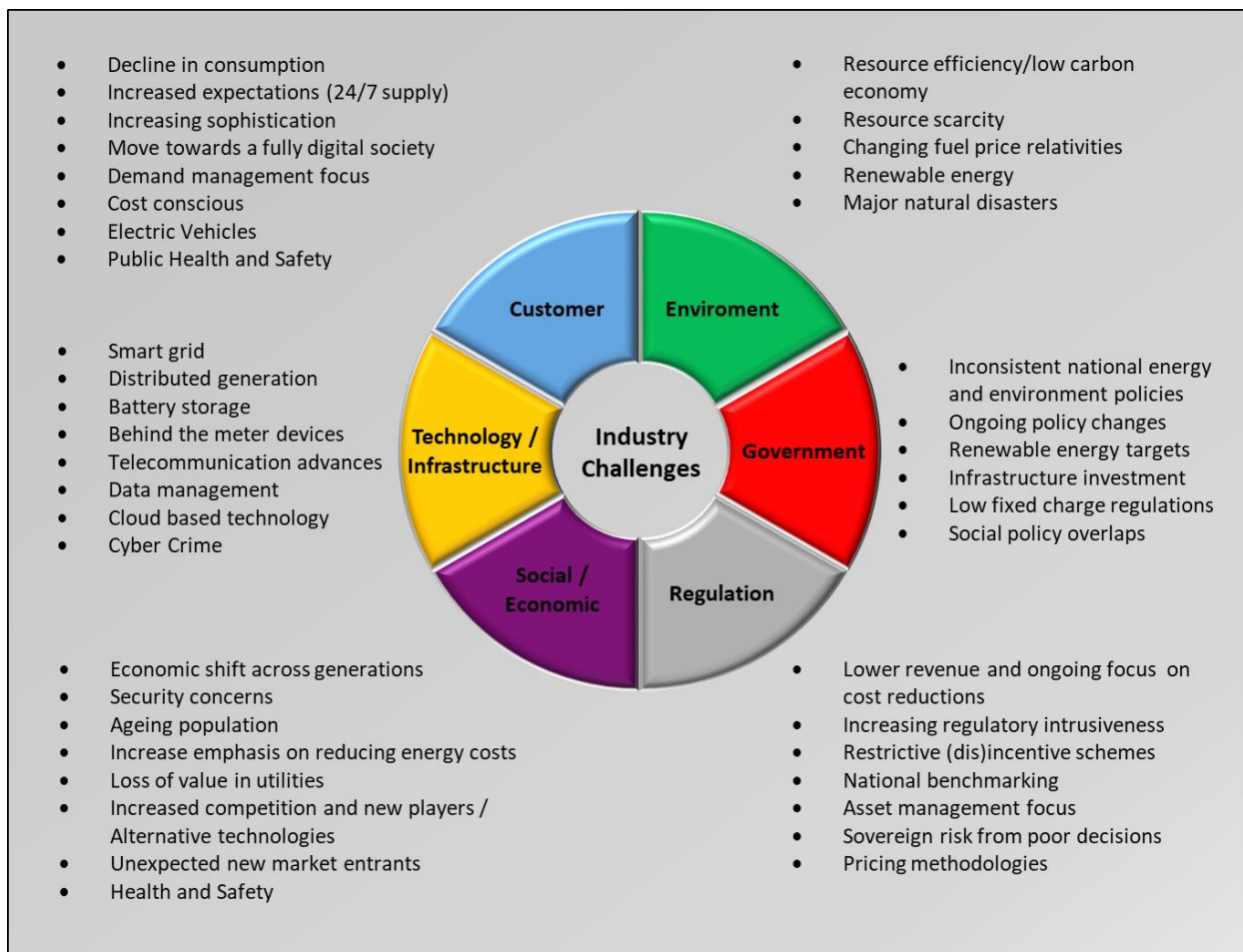
The EA's statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The Authority is presently focusing on Transmission Pricing Methodology, distributed generation, distribution pricing and the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

EIL while supportive of the EA objectives is concerned about the consultation process, potential unintended consequences, lack of consideration of other statutory requirements and the increase in sovereign 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,

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

## 3.3 Industry Challenges

EIL 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

EIL through the PowerNet New Energy and Strategy team is keeping abreast of electricity technology and demand changes including low carbon economy directives from Government, electric vehicle incentives and industrial energy process changes.

EIL is doing this through the monitoring of smart meter data and the Smart Energy Home Project with PowerNet. This is to ensure the network can continue to provide customer centric solutions and continue the delivery of a quality and reliable service.

## Revenue and Pricing

EIL is subject to Default Price-Quality Path (DPQP) regulation under the jurisdiction of the Commerce Commission and reports in June each year as to whether it has remained within the revenue path and quality limits set by the Commission.

The price control regime for regulated Electricity Lines Businesses for 2013/2014 onwards permits businesses to increase their prices to an allowable revenue level as determined by the Commission. The regime allows EIL to directly pass through any price increases from Transpower and CPI increases and prices are reset by the Commission every five years. The reset for the start of the next Regulatory Control Period commencing on 1 April 2020 was announced on 27 November 2019 with EIL's distribution prices reducing 6.4% and OJV 10.15%.

EIL sets its prices in accordance with its line pricing methodology which is published each year in accordance with the Electricity Information Disclosure Requirements and is committed to staying within the DPQP five years revenue cap and quality path announced on 27 November 2019.

The EA monitors EIL's compliance with its pricing methodology and other electricity market rules.

The Authority is consulting on Distributor and Transmission Pricing Methodologies and has expressed concerns regarding inefficient investment outcomes due to these pricing methods. EIL looks forward to working with the Authority to achieve efficient outcomes through cost reflective pricing, particularly those prices promoting inefficient investment in solar generation.

EIL will work with the industry and the regulator to ensure its prices recover reasonable costs and allow it to provide a high quality service to consumers, an appropriate return to shareholders and meet social and environmental requirements.

EIL and the energy sector have serious concerns with the poorly designed low fixed charge regulations. The legislated tariff option is providing significant cross subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower cost generation options. EIL appreciates the Government's view from the electricity price review that the regulations are to be addressed by officials and look forward to the removal or phasing out of the regulations.

## 4. STRATEGY

### 4.1 Core Business

The nature and scope of activities undertaken by EIL are:

- To operate an electricity distribution network and metering service in the Invercargill City and Bluff area in a safe, reliable, efficient and effective manner.
- To manage, grow and if appropriate realise subsidiary, joint venture and associate investments in the infrastructure, electrical and energy sectors.
- To operate a successful business for the benefit of the Company's shareholder.

### 4.2 Vision Statement

To be one of the top performing New Zealand electricity distribution businesses, with an integrated investment portfolio.

### 4.3 Commercial Objectives

EIL aims to operate as a successful business. We strive to be an efficient and effective operation within the electricity industry and provide stakeholders with an appropriate balance of:

- competitive pricing
- leading public and workplace safety performance
- above average levels of service
- acceptable 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, PNL 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.

**4.4.4** Continuing to grow its commercial relationship with its joint venture partners, The Power Company Limited 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.

## 4.5 Deployment of Company Objectives

### PowerNet Company Purpose

EIL contracts PowerNet Limited (PNL) to manage its business activities.

PowerNet is integral to EIL's success, and therefore the PowerNet Shared Vision is most relevant to EIL.



### Safe, Efficient and Reliable

The company endorses the same Safety Always Culture as PowerNet Limited.

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

EIL 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

EIL's key role in the community is to continue to ensure the region has a safe, secure and cost effective electricity and transmission system.

The community is fortunate that EIL, by operating a commercial business, is able through its ownership structure to provide a community benefit through a regular dividend stream to its shareholder, ICHL. ICHL is in turn owned by the Invercargill City Council.

EIL will endeavour either in its own capacity or through its joint ventures or subsidiary and associate investments to:

- ensure the company's network assets and operations do not present a safety risk to members of the public, or their property
- ensure safe work practices amongst PowerNet staff and contractors working on the company's network
- minimise incidents of vehicles hitting network equipment
- provide a limited number of key community sponsorships
- commit \$125,000 to the operation and ongoing monitoring of the Southland Warm Homes Trust
- provide targeted trainee programmes for talented individuals for key positions within our business associates
- promote adequate and cost effective Transpower services to the region
- promote the availability of adequate electricity generation resources
- recover line charges in a cost reflective and socially responsible manner

## Risk Management

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

### Insurance Captive

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

### Cyber Security

Cyber fraud training has been provided to all staff under the PNL umbrella of companies, thereby minimising the risk of cyber-attack on EIL 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

EIL's Directors are appointed by its shareholder, ICHL.

The Board is responsible for the final decision making with respect to the Company. The responsibility includes:

- Preparation and approval of the Business Plan and Statement of Intent
- Oversight of the PNL management contract
- Monitoring Company and investment performance
- Approval of the corporate, operational, financial and dividend policies
- Risk identification and management
- Authority delegation
- Establishing internal control and information systems
- Shareholder reporting
- Stakeholder relationships
- Investment opportunities
- Ensuring compliance with relevant legislation.
- Appointment of the Chief Executive.

The Board does not have any sub-committees due to the small number of Directors, consequently health and safety, audit and risk management are functions of the full Board. Remuneration policies and practices are performed by a sub-committee within PNL. Treasury management and policy setting is performed by EIL's shareholder ICHL.



## 5. PERFORMANCE MEASURES

### 5.1 Financial

Listed below are the Group forecast returns for the next three years:

#### EBIT% - PERCENTAGE EARNINGS BEFORE TAX AND INTEREST ON ASSETS EMPLOYED

	2021	2022	2023
Group Net Operating Profit Before Taxation, Mark to Market Adjustment and Subvention Payment	8,857,639	8,250,899	8,524,730
Interest	2,943,706	2,472,575	2,397,304
Group Net Operating Profit Before Interest and Taxation, Mark to Market Adjustment and Subvention Payment	11,801,345	10,723,474	10,922,034
Total Assets	205,412,457	205,164,186	204,371,083
<b>EBIT %</b>	<b>5.75%</b>	<b>5.23%</b>	<b>5.34%</b>

#### NPAT% - PERCENTAGE TAX PAID PROFIT ON EQUITY

	2021	2022	2023
Net Profit After Tax (NPAT)	5,933,838	5,510,979	5,733,314
Equity	96,685,917	98,196,896	99,930,210
<b>NPAT %</b>	<b>6.14%</b>	<b>5.61%</b>	<b>5.74%</b>

#### PERCENTAGE OF CONSOLIDATED EQUITY TO TOTAL ASSETS

	2021	2022	2023
Equity	96,685,917	98,196,896	99,930,210
Total Assets	205,412,457	205,164,186	204,371,083
<b>% Equity/Total Assets</b>	<b>47.07%</b>	<b>47.86%</b>	<b>48.90%</b>

## 5.2 Supply Quality

**SAIFI - SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (THE AVERAGE NUMBER OF TIMES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)**

2021	2022	2023
0.70	0.67	0.67

**SAIDI - SYSTEM AVERAGE INTERRUPTION DURATION INDEX (THE AVERAGE TOTAL TIMES IN MINUTES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)**

2021	2022	2023
33.95	32.90	34.00

**THE COMMERCE COMMISSION SUPPLY QUALITY LIMITS ARE:**

<b>SAIFI (unplanned)<sup>1</sup></b>	0.6956 times
<b>SAIFI (planned<sup>1</sup>)</b>	0.5183 times (5-year)
<b>SAIDI (unplanned)</b>	25.86 minutes
<b>SAIDI (planned<sup>2</sup>)</b>	114.49 minutes (5-year)

## 5.3 Health & Safety

PNL is contracted to EIL to manage operations. EIL employ no staff. Therefore, the PNL Health and Safety Performance targets are relevant to EIL.

**TRIFR - TOTAL RECORDABLE INJURY FREQUENCY RATE CONTRACTOR TARGETS**

2021	2022	2023
4.2	3.5	3.0

<sup>1</sup> An annual Planned SAIFI Limit figure is shown for comparison with the forecasts, but Planned SAIFI is assessed at the end of the 5 year DPP3 period. The 5-year Planned SAIFI limit is 0.5183

<sup>2</sup> An annual Planned SAIDI Limit figure is shown for comparison with the forecasts, but Planned SAIDI is assessed at the end of the 5 year DPP3 period. The 5-year Planned SAIDI limit is 114.49

## 6. SHAREHOLDER INFORMATION

### 6.1 Payments to Shareholder

Payments to ICHL and the Invercargill City Council Group are a combination of debt repayments, subvention payments and dividends.

The Company intends to declare a dividend of \$4 million starting on March 2020 and for the succeeding three years payable one-third in each of the following July, November and March.

Planned dividends, subvention payments and debt repayments are summarised in the table below:

	2021	2022	2023
Dividends	4,000,000	4,000,000	4,000,000
Subvention payments	1,823,151	1,681,154	1,463,650
Debt repayments	2,700,000	2,000,000	3,000,000
<b>Total</b>	<b>8,253,151</b>	<b>7,681,154</b>	<b>8,463,650</b>

### 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 by 30 June with the opportunity to assess the performance of the Company, and the value of the investment.

Un-audited half-yearly accounts will include Statements 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.

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

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

### 6.3 Acquisition Procedures

The Company will not establish any new company or other organisation or acquire shares, equity, voting interests or memberships of any company or organisation without the Directors having gained prior approval of the shareholder. In the case of each subsidiary of the Company, the Directors of the Company shall not, without the prior approval of the shareholder, approve any investment which is contrary to that subsidiary's Constitution.

The current procedures are that 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 15% of Electricity Invercargill Limited's assets before acquisition.

### 6.4 Compensation Sought from Local Authorities

EIL is not aware of any compensation it seeks from any local authority.



## 6.5 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 EIL's financial statements and SOI.

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 regulatory decision made by the Commerce Commission.

## 6.6 Statement of Intent

Each year in accordance with the Energy Companies Act 1992 the Board submits a draft Statement of Intent (SOI) for the coming financial year and the two succeeding years. The SOI sets out the nature and scope of the activities to be undertaken by EIL, its objectives and key performance indicators by which EIL's performance can be measured.

After consulting with ICHL and considering its comments on the draft SOI the final SOI is approved by the Company's Board. The final SOI is delivered to ICHL, placed on the internet and advertised as being available to the public, with copies at the Company's registered office

## 6.7 Debt Management

EIL's electricity network asset investments are subject to regular renewal throughout their lives in line with depreciation. EIL's debt levels are managed taking into account banking covenants, the group's profit, depreciation, capital expenditure and new investment plans. EIL's group holds investments in classes of assets that require replacement of a significant portion of the asset as they approach the end of their economic lives. EIL recognises that where these assets have been acquired via debt funding that a prudent approach is to repay the associated debt as the economic value of the asset diminishes throughout its life.

Debt level is expected to reach \$81.3 million in March 2021 due to an increase in investments, decreasing to \$79.3 million in March 2022 and \$76.3 million in March 2023 in line with the planned debt repayments.

## **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 Group 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**

NZ IFRS 16 'Leases' are effective for annual reporting periods commencing on or after 1 January 2019, which means it will be effective from the Group's 31 March 2020 financial statements.

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