

EIL

Electricity Invercargill Ltd



Langlands Substation

STATEMENT OF INTENT

2023/2026

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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 2024 and the two succeeding years and supersedes the previously published SOI, titled SOI 2023/2026.

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, the customers and consumers 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 (PowerNet), OtagoNet Joint Venture (OJV) and its interest in associate entity, Lakeland Network Limited (LNL).

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 Group has overall been resilient to the continuing impact of COVID-19. Adopted pandemic measures by the Group has limited the health impact of the virus while the more permissible New Zealand COVID-19 Protection Framework allows increased activities on the wider business and network operations.

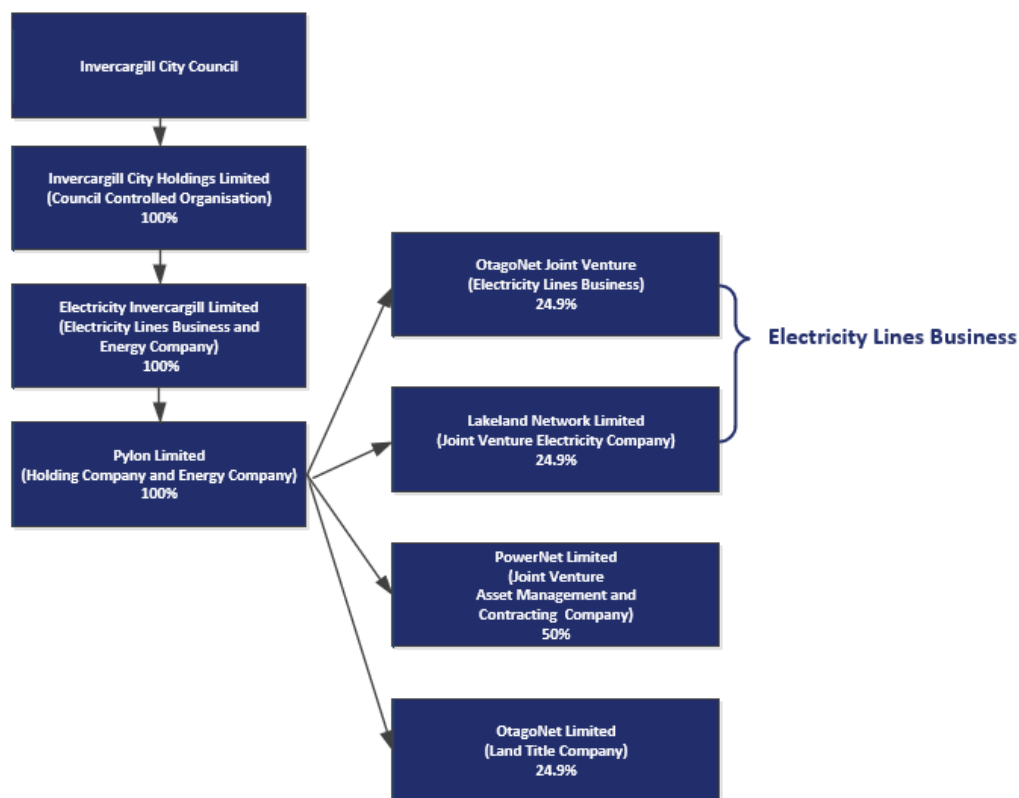
EIL Group electricity distribution activities are considered an essential service and have not been impacted by the pandemic restrictions to date. This Statement of Intent incorporates known impact of COVID-19 pandemic on supply chain disruptions and the associated significant effect on material price increases. Activity on the network will be steady on the assumption that the pandemic will not have a significant effect on the availability of skills and easing restrictions resulting from more liberal COVID-19 protection framework. 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.
- Servicing 19 retailer brands connected to the network.
- Supplies 17,554 consumers – 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 611km of predominantly underground cables, some overhead lines and 428 distribution transformers with a capacity of 157MVA.

2.2 Company Structure



2.3 Map of EIL Area

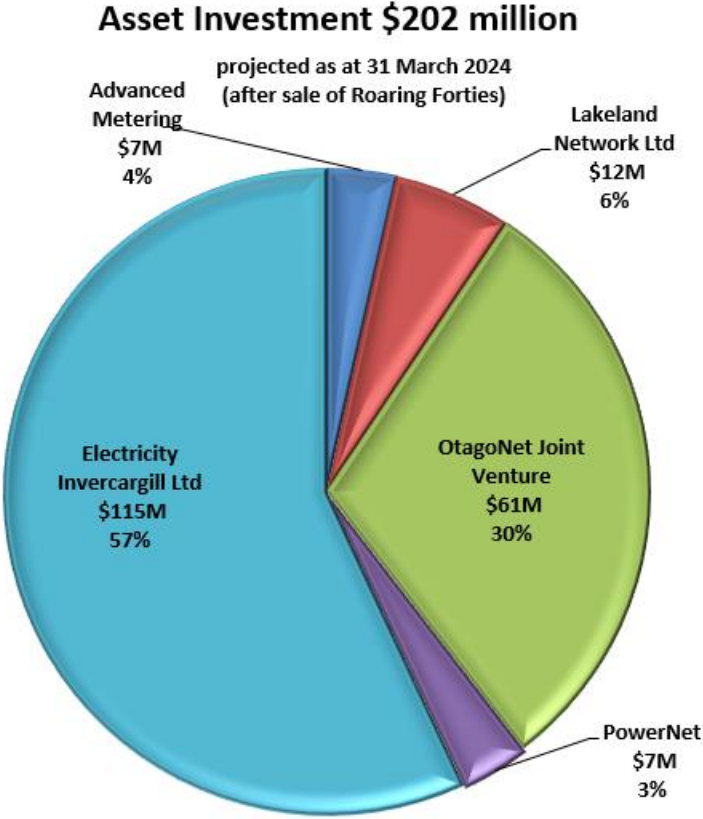


2.4 Investment Diversification

Outside of EIL's core electricity distribution business, EIL together with joint venture partners, own a number of other electricity sector businesses:

- PowerNet Limited (PowerNet)
A 50% owned electricity distribution network management and field services provision joint venture company. It has network management agreements in place for EIL, The Power Company Limited (TPCL), OJV and LNL electricity distribution networks. In addition, they provide corporate and board services to their shareholders.
- OtagoNet Joint Venture
A 24.9% owned electricity distribution unincorporated joint venture business in rural Otago covering Balclutha, Milton, Ranfurly and Palmerston.
- Lakeland Network Limited
A 24.9% owned electricity distribution business in Central Otago covering Frankton, Cromwell and Wanaka.

- **Roaring Forties Energy Limited Partnership/Southern Generation Limited Partnership**
 The 25% owned renewable electricity generation limited partnership business, with wind and hydro generation sites throughout New Zealand. It is intended that this business will be sold by the Group to EIL's shareholder, ICHL, effective 1 July 2023. The resulting gain on sale has improved the Group's equity position as disclosed in the financial performance measures.
- **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.



3. INDUSTRY LANDSCAPE

3.1 The Electricity Industry

EIL, like other electricity distribution businesses in New Zealand, is party to the Electricity Industry Participation Code (EIPC) administered by the Electricity Authority (The Authority). 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 the service provided to EIL through PowerNet'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 Authority. 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, PowerNet manages the safe distribution of electricity on behalf of EIL. The PowerNet, an incorporated joint venture 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).

Across New Zealand there are 29 EDB's subject to Commerce Commission regulation. EIL is one of 17 EDB's that are price-quality regulated. Price-quality regulation limits the revenue recovered from consumers, and sets standards for the quality of service that must be met. The remaining 12 EDB's are consumer-owned and meet certain criteria to be exempt from price-quality regulation. IMs that apply to price-quality regulated 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 into the 2020 DPP reset.

EIL is required to meet the verification requirements of the Related Party Input Methodology, which incorporates reviewing transactions with related party entity PowerNet. Further verification is required for the 2022/23 year.

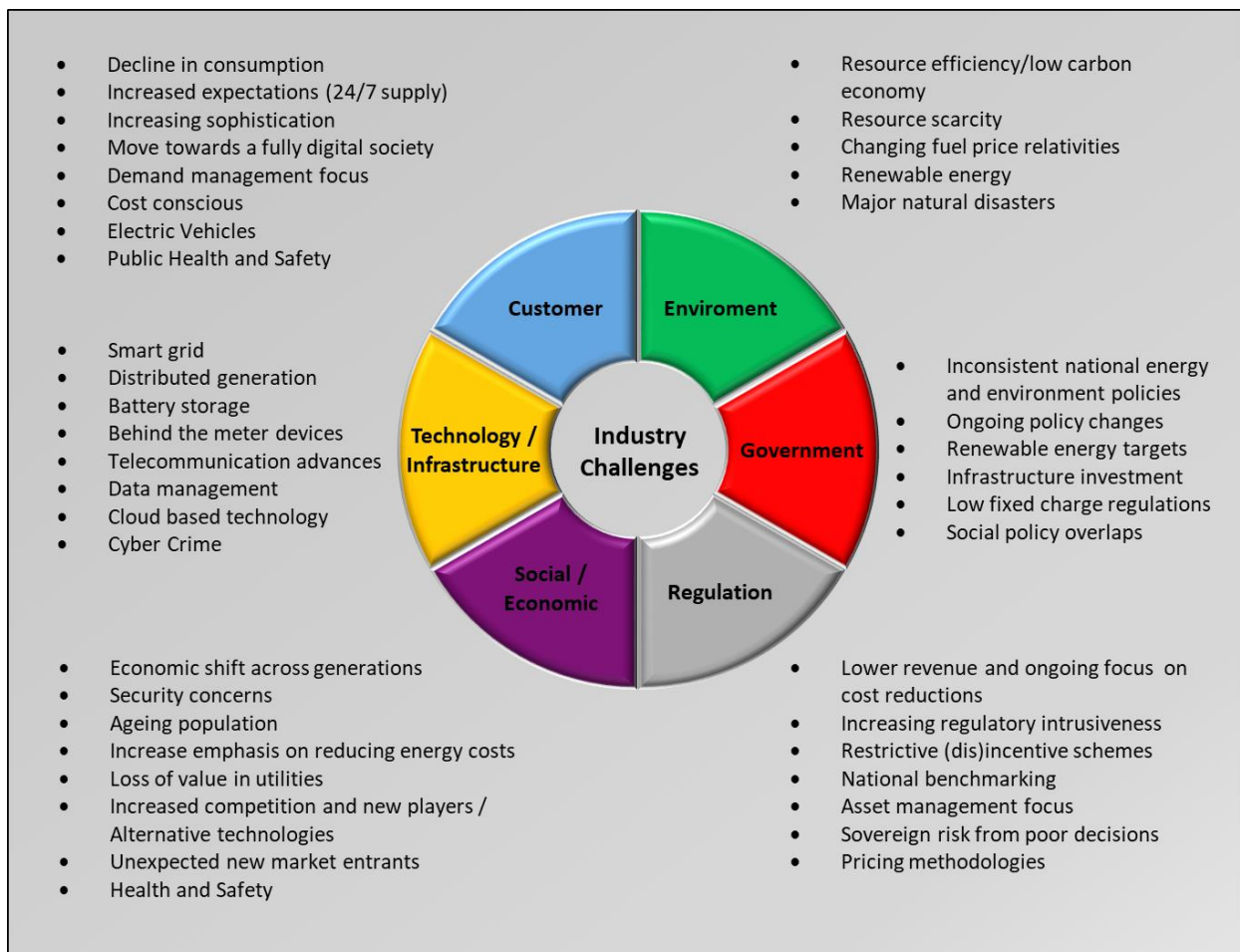
Electricity Authority

The 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 consumers. The Authority is presently focusing on the pass through of transmission loss rental rebates non-network solutions to increasing demand, including distributed generation and batteries; distribution pricing; and EDB capacity and capability and issued new decisions on the Transmission Pricing Methodology and distributed generation.

EIL will continue to work with the Authority to achieve 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. This is to ensure the network can continue to understand home energy solutions, provide customer centric information and continue the delivery of a quality and reliable service.

Revenue and Pricing

EIL is subject to Default Price-Quality Path 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.

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 regime implemented by the Commission includes a series of allowable revenues given to businesses primarily based on their regulatory asset base, planned capital and operating expenditure levels. There are also various incentive regimes and wash-up mechanisms that apply.

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 wants to ensure equitable charging amongst its customers. The Electricity Authority has directed EDB's to introduce a new cost reflective and service-based pricing methodology which EIL has commenced from 1 April 2022 when Time-of-Use (TOU) pricing is implemented for the residential and general customer groups. The introduction of TOU pricing follows consultation with electricity retailers. The improved methodology will assist EIL and customers meet the change in energy use, especially with decarbonisation and electrification. 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 the customers desire to utilise pricing options and innovative technology.

Along with the introduction of TOU pricing EIL is in year two of phasing out of the Low Fixed Charge Tariff Regulations over a five year period following the amendment by Government to a more balance cost reflective mixture of fixed and variable charges.

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.

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 our shareholder and 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, 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 the network customers and connected consumers with competitive prices and optimised service by:

- Ensuring that sufficient resources are available to satisfy its service requirements,
- Achieving a return for all its electricity distribution assets near to the Weighted Average Cost of Capital.

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

- Continuing to strengthen relationships with appropriate companies with a view to achieving economies of scale through strategic alliances or associations.
- Consider network and non-network solutions to meet future requirements
- Promote access to Distributed Energy Resources

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

4.5 Deployment of Company Objectives

The company together with its joint venture partner shareholder of PowerNet through the governance of PowerNet sets the vision of PowerNet Limited.

EIL contracts PowerNet to manage its business activities.

Safe, Efficient and Reliable

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 reliability of customer service, long term sustainability around network pricing and stable long term returns to its shareholders.



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.

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.

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

For example this includes but is not limited to;

- Remote Area Power Supply (RAPS)
- Electric Vehicles (EVs)
- Battery Storage
- Distributed Generation including 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 distribution and transmission system.

Through its ownership structure and by operating as a commercial business, EIL is able to provide benefit to community through a regular dividend stream to its shareholder, Invercargill City Holdings Limited (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 number of key community sponsorships
- commit \$62,500 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

Decarbonisation

EIL has identified that the most significant contribution it can make to support decarbonisation and a net carbon zero economy is to identify those large consumers of fossil fuels in the network and support their transition to electrical heating. That work is under way and approximately 110 GWh of potential for fuel switching has been identified.

Risk Management

EIL has a comprehensive risk management framework in place. Areas of particular focus and development at present are:

Cyber Security

Cyber fraud training has been provided to all staff under the PowerNet 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. Consultants 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.

Workplace and Public Safety

We continue our commitment to ongoing improvement in workplace and public safety.

Ensuring safety is always considered and managed at all times in the workplace, and ensuring leaders and team members make the right choices when undertaking their work, delivers improved performance.

Our critical risk management framework is in its implementation phase and is well resourced. This framework is targeted at reducing incidents that will cause our people serious harm. Reporting and recording of all workplace and public safety incidents to minimise risk to our workers and members of the public has improved.

We plan to align our occupational health and safety foundations to ISO:45001. Investment into educating and upskilling our workers at all levels, establishing clear and effective policy and integrated processes and systems are all key elements to this strategy.

Asset Concentration

EIL manages its geographical and asset concentration risks through a diverse range of investments in the electricity sector across a range of locations within New Zealand.

Security of Supply

Security of supply refers to the electricity industry providing appropriate electricity system capabilities to maintain normal supply to consumers. Security of supply does not include reliability of supply to consumers arising from short-term causes, such as storms or earthquakes.

EIL continues to respond to operating challenges through network upgrades to ensure sufficient voltage is delivered at customer connection points. Investment is ongoing for the automation of network equipment to allow faster location, isolation and supply restoration following a fault.

Quality Asset Management

Asset Management refers to a formal approach through which an organisation manages its physical assets and their associated performance, risks and expenditures over their full lifecycle for the purpose of achieving the company's vision and business objectives.

The objective of asset management in EIL is to ensure that the network's assets deliver the required function and level of performance, in a sustainable manner at an optimum whole-life cost without comprising health, safety, environmental performance or the organisation's reputation. It therefore contributes directly to the business capability and performance while enhancing customer satisfaction and improving health, safety and environmental performance.

4.6 Responsibilities of the Board

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

The Board is responsible for the governance of the Company. The responsibilities include:

- Review and approval of the Business Plan and Statement of Intent
- Oversight, management and monitoring of the network 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.

The Board does not have any 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 committee within PowerNet. Treasury management and policy setting is performed by EIL's shareholder ICHL.



A transformer replacement in Rodney Street, Invercargill

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

	2024	2025	2026
Group Net Operating Profit Before Taxation and Non-operating Items (Gain on Sale)	4,591,972	4,907,604	7,012,084
Interest	2,338,167	1,529,190	1,436,854
Group Net Operating Profit Before Interest, Taxation and Non-operating Items (Gain on Sale)	6,930,139	6,436,794	8,448,938
Total Assets	202,356,941	204,494,971	208,894,357
EBIT %	3.42%	3.15%	4.04%

NPAT% - PERCENTAGE TAX PAID PROFIT ON EQUITY

	2024	2025	2026
Net Profit After Tax (NPAT)	14,292,510	3,709,698	5,288,942
Equity	138,277,101	140,486,799	143,775,740
NPAT %	10.34%	2.64%	3.68%

PERCENTAGE OF CONSOLIDATED EQUITY TO TOTAL ASSETS

	2024	2025	2026
Equity	138,277,101	140,486,799	143,775,740
Total Assets	202,356,941	204,494,971	208,894,357
% Equity/Total Assets	68.33%	68.70%	68.83%

5.2 Supply Quality

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

SAIFI	2024	2025	2026
Planned	0.15	0.15	0.15
Unplanned	0.70	0.69	0.69

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

SAIDI	2024	2025	2026
Planned	32.00	32.00	32.00
Unplanned	41.00	39.00	38.60

The increase in planned works resulted to an increase in the target SAIDI and SAIFI measures to accommodate the higher volume of planned outages associated to these works.

EIL's network reliability has been extremely good due to the underground nature of the Invercargill network. Parts of the underground network are starting to reach end of life and these are incorporated in the forecasts. Distribution automation can counter some of the effect on SAIDI, but it becomes less cost efficient with higher saturation on the network and is less effective at countering the SAIFI impact of deteriorated equipment. The reliability forecast has been adjusted to reflect the average performance of unplanned SAIDI and SAIFI in the past 5 years and is expected to stay at this level. The SAIDI and SAIFI forecast is expected to slowly improve as the testing of the cable, remote control of Ring Main Units and installation of fault locators reduce the number of outages and improve the restoration time in the medium to long term.

THE COMMERCE COMMISSION SUPPLY QUALITY LIMITS ARE:

SAIFI (unplanned)¹	0.6956 times
SAIFI (planned)¹	0.5183 times (5-year)
SAIDI (unplanned)	25.86 minutes
SAIDI (planned)²	114.49 minutes (5-year)

5.3 Health & Safety

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

TRIFR - TOTAL RECORDABLE INJURY FREQUENCY RATE CONTRACTOR TARGETS

2024	2025	2026
3.1	3.1	3.1

¹ 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

² 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 Dividend Payments

The Company intends to provide a dividend of \$1.5 million starting on March 2025 and will increase to \$2 million on March 2026. A dividend will be declared and paid in March of each financial year.

Any remaining profits will be retained in the Company for the future asset renewal. Future dividend payments, asset renewals and levels of debt repayment will be dependent on the ongoing performance of the Company and its investments.

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 network management, network operation, 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, or significant changes in market conditions.

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 lending 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.

EIL's debt level is expected decrease by \$50.9 million to \$33.1 million by March 2024 with the sale of Roaring Forties Energy Limited Partnership. There will be no planned repayment on the succeeding two years.

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

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