Network Tasman Limited

STATEMENT OF CORPORATE INTENT
For the year ending 31st March 2017

NETWORK TASMAN LIMITED
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FOR THE YEAR ENDING 31ST MARCH 2017

1. INTRODUCTION

This Statement of Corporate Intent (SCI) is submitted by the Board of Network Tasman Limited (Network Tasman) in accordance with Section 39 of the Energy Companies Act 1992 and Clause 23 of the company's constitution.

The SCI sets out the objectives that Network Tasman will follow for the financial year ending 31 March 2017 and for the two subsequent financial years.

The Directors of Network Tasman have prepared this draft SCI for consideration by the Trustees of the Network Tasman Trust, who are elected by the consumers to hold the shares of the company.

2. OVERVIEW

This report is prepared in two sections:

- **Section A** contains information required under the Energy Companies Act 1992 and follows the sub-section numbering contained in Section 39 of the Act.
- **Section B** contains additional information on recent industry developments and sets out the company's intentions in relation to its shareholders and those persons connected to the Network Tasman network (hereafter called "consumers").

SECTION AINFORMATION REQUIRED UNDER SECTION 39 OF THE ENERGY COMPANIES ACT 1992

A.1 Objectives of Network Tasman

The principal objective of Network Tasman is governed by section 36 of the Energy Companies Act 1992, which requires Network Tasman to operate as a ***"successful business"***.

Network Tasman has adopted the following Vision and Mission to meet the ***"successful business"*** criteria set down by the Energy Companies Act:

Vision Statement:

To be a successful network services company for the benefit of our consumers.

Mission Statement:

To own and operate efficient, reliable and safe electricity networks and other complementary businesses while increasing consumer value.

"reliable"	reliable, in relation to the electricity distribution business, is defined as meeting the reliability performance targets specified in section A.5.
"efficient"	efficient, in relation to the core electricity distribution business, means the provision of a safe and reliable network including the prudent and timely investment and maintenance of the network at the lowest cost to consumers.
"safe"	safe, in relation to the core electricity distribution business, is defined as zero Lost Time Injuries and Public Injury Accidents.
"consumer value"	consumer value is defined as the corporate "shareholder value" plus the value derived by consumers either directly or indirectly in their capacity as beneficiaries of the Network Tasman Trust and as users of the network.

To achieve the company's key objectives in relation to the core electricity distribution business, Network Tasman will:

- Seek to achieve the financial, reliability and safety performance targets specified in section A.5
- Encourage competition on Network Tasman's networks
- Annually review the company's future strategies and direction
- Maintain a line pricing policy, subject to Government and regulatory constraints, that reflects a reasonable allocation of economic costs, is simple to implement and ensures a fair rate of return for shareholders on a pre-discount basis
- Minimise operating costs while maintaining safe and reliable networks
- Produce annually a comprehensive Asset Management Plan

Values:

- In making commercial decisions, such as setting line charges (section B.3), we will act as a good corporate citizen
- We will provide a work environment where individuals can flourish
- We will act honestly and with integrity
- We will provide our consumers with a quality network service
- We will create a safe environment for our consumers, the public and our staff & contractors
- We will strive to improve our environmental performance and minimise, where practical, adverse effects on the environment
- We will endeavour to operate within the framework and constraints of industry regulation

A.2 Nature and scope of activities to be undertaken

The company's principal activity is to own and operate the electricity distribution network in the wider Nelson and Tasman areas, excluding Nelson Electricity's supply area in Nelson city.

In addition to its principal activity, the company has interests in complementary businesses of fibre optic networks, property, a 50% shareholding in Nelson Electricity Limited and On Metering Limited and advanced metering on the Network Tasman network.

The company's constitution defines the process for the Trust approving any new business proposals. The Trust will be consulted when the proposals require commitment to capital and operational expenditure above the threshold defined by the constitution.

Network Tasman will undertake activities to:

- Plan, construct, maintain and operate a reliable and secure electricity distribution and communications network;
- Efficiently manage its other investments and company interests;
- Seek new, value enhancing network and growth opportunities related to or complementary to its principal activity;
- Enhance the company's on-going business success.

In governing the operations of the company, the Board of Directors will operate at all times in accordance with the requirements of the Board Charter.

A.3 Capital Structure

The shareholders' funding of the company will be not less than 50% of the total assets.

The ratio of shareholders' funds to total assets for Network Tasman is forecast as follows:

31 March 2016	82%
31 March 2017	81%
31 March 2018	83%

Total Assets is defined as the total book value of all assets of the company.

Shareholders' funds are defined as total issued capital, the balance of any undistributed profits and all revenue and capital reserves less any minority interests.

The forecast capital structure assumes investments in advanced metering, network enhancements as detailed in the company's AMP and no return of capital over and above the forecast dividend stream outlined in section A.6.

A.4 Accounting policies

The company's accounting policies will comply with the legal requirements of the Companies Act 1993, the Financial Reporting Act 1993 and NZ International Financial Reporting Standards (NZ IFRS).

The financial statements will comply with the Institute of Chartered Accountants of New Zealand (ICANZ) reporting framework and standards, modified for the circumstances as necessary.

Details of the company's accounting policies for the financial year ended 31 March 2015 are contained in Appendix 1.

A.5 Performance targets

Financial performance targets

Financial performance targets for the year ending 31 March 2017 and for the two subsequent financial years are set out below. The forecast performance targets for the year ending 31 March 2016 are provided for comparison purposes.

Total company:

(a) Surplus before interest, tax, line discounts and customer contributions

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
$17.9 m	$16.8 m	$18.1 m	$18.6 m

(b) Operating surplus after tax

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
$6.3 m	$5.6 m	$6.5 m	$6.9 m

(c) Operating surplus to shareholders' funds

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
3.5%	3.1%	3.5%	3.6%

Line Business only:

(a) Total network costs per consumer

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
$435	$455	$454	$454

(b) Cash operating costs per consumer

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
$278	$291	$290	$290

(c) Line charge discounts (excluding GST):

2015/2016 *Forecast*	**2016/2017**	**2017/2018**	**2018/2019**
$10.2 m	$10.3 m	$10.4 m	$10.5 m

The line business cost performance targets are recognised as standard industry measures. A list of the key assumptions used in the financial forecasts is contained in Appendix 2.

The directors believe that the level of profit forecast above is sufficient for the company to carry out its activities and to provide shareholders with satisfactory dividends for the forecast period.

Reliability & Safety Performance Targets

Network Tasman's aim is to be consistently meeting its AMP targets for SAIDI (classes B & C) and continues to commit substantial expenditure toward this goal as identified in the company's AMP.

The latest version of the AMP is available on the company's web site at: www.networktasman.co.nz. For the next three financial years Network Tasman has the following reliability objectives:

SAIDI – System Average Interruption Duration Index

$$\text{SAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Number of Consumers}}$$

SAIDI is a measure of the number of minutes that a consumer on the network can expect to be without supply each year. Target SAIDI – excluding Transpower planned and unplanned outages not to exceed:

2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
179	183	115	150	150

Minutes per year
Planned SAIDI, SAIFI and CAIDI has been adjusted this year to include additional outages on the 66kV assets west of Stoke (previously owned by Transpower) and additional planned network line renewals.

SAIFI – System Average Interruption Frequency Index

$$\text{SAIFI} = \frac{\text{Total Annual Consumer Supply Interruptions}}{\text{Total Number of Consumers}}$$

SAIFI is a measure of the number of times each year that a consumer on the network can expect the supply to go off. Target SAIFI - excluding Transpower planned and unplanned outages not to exceed:

2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
1.39	1.60	1.36	1.61	1.61

Times per year

CAIDI – Consumer Average Interruption Duration Index

CAIDI = Total Annual Consumer Minutes of Non Supply / Total Annual Consumer Supply Interruptions

CAIDI is a measure of the average duration in minutes of supply interruption. Target CAIDI - excluding Transpower planned and unplanned outages not to exceed:

2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
129	114	85	93	93

Minutes per year

The SAIDI, SAIFI and CAIDI measures are industry standards, which enable assessment and comparison of network performance. Industry statistics include rural and urban networks. The Network Tasman network includes a significant rural component.

(d) Faults per 100km of line not to exceed:

2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
5.8	5.3	6.0	6.0	6.0

(e) % Faults not restored within 3 hours not to exceed:

2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
24	19	20	20	20

Safety of Electricity Supply

Network Tasman is committed to providing a safe environment for the public, its staff and contractors.

For the next three financial years Network Tasman has the following safety objective:

(a) Public Safety and Damage Events

	2014/15 Actual	**2015/2016 *Forecast***	**2016/2017**	**2017/2018**	**2018/2019**
Public Injury Events (PIE)	0	0	0	0	0
Public Property Damage Ev (PPDE)	0	1	0	0	0

(b) Network Tasman and Contractors Lost time injuries not to exceed (Times per year):

2014/15 Actual	2015/2016 *Forecast*	2016/2017	2017/2018	2018/2019
1	1	**0**	0	0

A Lost Time Injury (LTI) is defined as a work-related injury causing the absence of one or more working days, counting from the day after the injury, before the person returns to normal or restricted work.

(c) Public Safety Management System (PSMS)

Network Tasman's Public Safety Management system is certified and audited by Telarc.

A.6 Dividend Policy

Directors are required to consider annually the appropriate level of profit to be distributed to shareholders. In undertaking this consideration directors are required to:

(i) Consider the company's financial forecasts and Asset Management Plan;

(ii) Ensure retention of an appropriate level of funds for profitable reinvestment in the company;

(iii) Provide an appropriate rate of return to shareholders.

The company's constitution requires directors to include in the annual report a recommendation regarding the level of profit distribution.

The company is forecasting dividends as follows:

2015/2016 *Forecast*	2016/2017	2017/2018	2018/2019
$2.0 million	**$2.0 million**	$2.0 million	$2.0 million

The dividends are forecast to be paid in March of each financial year.

The ability of the company to pay the level of fully imputed dividends indicated above may be impacted in future by such factors as the Commerce Commission price threshold regulations, the company's capital expenditure commitments and its line charge discount policy.

A.7 Capital Expenditure

The company is forecasting the following capital expenditure commitments on the distribution network for the 10-year period 2016/17 – 2025/26:

Year	Capital Expenditure ($Million)
2016/17	7.2
2017/18	10.4
2018/19	12.0
2019/20	10.0
2020/21	14.3
2021/22	19.2
2022/23	17.0
2023/24	8.7
2024/25	8.3
2025/26	10.8
Total	**117.9**
Average per annum	**11.8**

A.8 Information to be provided to shareholders

The company will provide information that meets the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Energy Companies Act 1992

The reports to shareholders will be:

Half yearly reports

A half-yearly report will be delivered to shareholders within two months of the end of the half-year ending 30 September 2016. This report will contain:

(i) A report from directors covering operations for the half-year period;

(ii) Unaudited financial statements for the half-year period in respect of the company; and

(iii) Any other information directors consider necessary or that has been reasonably sought by shareholders to enable an informed assessment of the performance of the company in that reporting period.

Annual reports

Annual reports will be delivered to shareholders within three months of the end of each financial year and will contain:

(i) A report from directors covering the operations for the year;

(ii) Audited financial statements for the financial year in respect of the company;

(iii) Auditor's report on the financial statements and the performance targets together with other measures by which the company's performance has been judged in relation to its objectives; and

(iv) Any other information directors consider necessary or that has been reasonably sought by shareholders to enable informed assessment of the company's performance in that reporting period.

The company will publicise abridged annual report results for the benefit of its consumers.

From time to time the company may provide the shareholders with additional information which may be of interest to shareholders.

A.9 Procedures for the acquisition of shares in other companies or organisations

As a general policy, any new share investment by the company will be required to meet the same financial criteria as any other significant capital investment.

The company will only invest in other businesses when the investment is expected to bring added consumer value and therefore increase shareholder wealth. In addition, the questions of control and risk associated with the investment will be addressed.

The company's board of directors will consider all share investment proposals. In cases where the investment proposals may have a significant affect upon the assets of the company the directors will give written notice to shareholders of their intention to make such an investment.

In making their final decision regarding the investment the directors will give due regard to views expressed by shareholders.

In certain circumstances, as set out in the company's constitution, the approval of shareholders is required for transactions. Where such approval is required the appropriate information and supporting material will be provided to shareholders, together with a request from the directors seeking their approval of the transaction.

A.10 Nelson Electricity Limited

Network Tasman Limited has a 50% shareholding in Nelson Electricity Limited, the distribution network owner and operator for Nelson city. Network Tasman provides specialist engineering services to Nelson Electricity, which is managed independently. Two directors of Network Tasman sit on the board of Nelson Electricity.

Nelson Electricity Limited has undertaken a significant capital expenditure program to upgrade its main sub-station in Haven Road, Nelson. The capital investment has been funded by additional term debt. The Board of Nelson Electricity is reviewing the company's capital structure and dividend policy to ensure that debt levels are appropriate for the business.

As an associate entity, Network Tasman accounts for Nelson Electricity under the equity accounting method, whereby Network Tasman recognises the annual movement in net assets of Nelson Electricity.

A cash dividend from Nelson Electricity of $800,000 is forecast for the 2016/17 financial year.

A.11 On Metering Limited

Network Tasman Limited has a 50% shareholding in On Metering Limited (OML). OML is a shareholder in SmartCo Limited and was formed to invest in advanced metering on the MainPower network in North Canterbury. Network Tasman has appointed one Director to the Board of OML.

SECTION B: INDUSTRY OVERVIEW AND LIKELY DEVELOPMENTS

Preamble

Network Tasman is a consumer trust-owned company and the Trustees hold the shares in Network Tasman on behalf of the consumers, as defined by the Trust Deed. As such the company has a potential conflict between its actions in providing a return to shareholders and its policies in relation to consumers. Some actions, for example to optimise returns to shareholders, may be in conflict with the best interests of consumers.

The electricity industry and the company are subject to increasing levels of regulation. In this section directors review recent industry developments and set out their intentions with regard to consumers in the areas of company operations which may concern the shareholders.

Industry Developments

The electrical industry and electricity market have been subject to considerable review and oversight by government and regulatory agencies over the last decade. Initiatives in recent years include:

- Allowing line companies to re-enter retailing and generation
- Major generators required to establish electricity hedge market
- Increasing standardisation of line pricing and Use of Systems Agreements between lines companies and electricity retailers Direct price and quality control of electricity lines businesses and Transpower by the Commerce Commission
- Regulated terms of connection small scale distributed generation to local distribution networks
- Transmission hedging mechanism established
- Encouragement of consumer choice between electricity retailers
- The introduction of advanced electronic meters
- The emerging trend of distributed generation by solar photovoltaic systems

These changes present both opportunities and challenges for Network Tasman.

The company has committed to re-enter ownership of meters and is part of a consortium of line companies that have formed a joint venture company SmartCo Limited. Electronic meters are a key component of the development of the modern network and will allow line companies, retailers and consumers to manage power demand and supply.

Regulatory

Part 4 of the Commerce Act requires the Commerce Commission to operate a regulatory control regime over the price and quality of line services delivered by all electricity lines businesses except those meeting the consumer ownership exemption provisions of the Act. Network Tasman does not meet these exemption provisions so is subject to the full price-quality control provisions of Commerce Commission regulation.

The price-quality control regime aims to ensure electricity distributors operate in the best interests of electricity consumers over the longer term and in so doing:

- Are limited in their ability to extract excessive profits
- Face strong incentives to improve efficiency and provide services at a quality that reflects consumer demands
- Share the benefits of any efficiency gains with consumers including through lower distribution prices

Under the control regime the Commerce Commission may seek High Court sanctions and penalties against the company and its Directors and Officers for a breach of either the price or quality control measures.

NTL's compliance cost associated with the price-quality control is in the order of $90,000 per annum.

If the company was exempt it would remain subject to a range of other regulations, including the Low Fixed Charge (LFC) Regulations, Information Disclosure regulations and various regulatory requirements under the Electricity Industry Participation Code.

a. Price Control

Distribution price
Like other controlled EDB's, NTL is required to report annually its compliance against its price - quality pathway and is constrained to annually increase the distribution component of its prices by no more than CPI once any starting price adjustment has been made.

At the beginning of each 5 year control period the Commerce Commission can make a one off adjustment to network pricing (Po adjustments) for controlled EDB's. These Po adjustments reset allowable future income levels and move rates of return closer to what the Commission regards as acceptable or normal. A starting price adjustment for each controlled EDB was put in place from 1 April 2015.

In the current 5-year regulatory period the Commission considers the acceptable upper limit for the post tax returns (WACC) an EDB can earn on its regulatory asset base to be 7.2% per annum.

Transmission price
The Commission's price control mechanism for the "pass-through and recoverable" component of pricing (often referred to as the "transmission" component of prices) permits lines businesses to pass through increases in certain uncontrollable costs, namely those for transmission charges, local authority rates and Electricity Commission and Commerce Commission levies. The pass-through and recoverable pricing component is adjusted each year to reflect incentives/penalties imposed by the Commerce Commission.

NTL 2016/17 pricing

For the 12 months commencing 1 April 2016, the NTL distribution component of the line charge will not increase. The transmission component of line charges will increase by 2% to recover additional transmission costs. As a result, NTL's total line prices for most domestic and small business consumers will increase by around 0.6%. Commercial consumers will generally face similar price increases.

b. Quality Control

The quality / reliability aspect of the control regime requires Network Tasman to annually demonstrate that there has been no material deterioration in reliability performance (SAIDI & SAIFI) when measured against historic data of the previous 5-year period. The Commission may take action if control formula is breached twice in any 3 consecutive year period.

A quality incentive scheme is also in place which rewards EDBs which achieve higher levels of quality than the target, and penalises those who are below target by adjusting the amount of revenue that can be earned from consumers. For NTL, the revenue impact from the incentive scheme would be +/-$281,000 per annum depending on the actual levels of SAIDI and SAIFI achieved.

c. Compliance with the control regime

Over the last 5 years NTL has consistently complied with its price control formula. NTL's pricing for the 12 months commencing 1 April 2016 is compliant with the price control for both the distribution price component and the recoverable and pass-through component.

Over the past 5 years NTL has also consistently complied with the Commerce Commission's quality standards regulation (that is, it has not breached the quality control formula more than once in any consecutive 3 year period).

The quality incentive scheme has not yet taken effect. The first incentive/penalty will be calculated based on quality measures relating to the 12 months ending 31 March 2016 and will be applied to 2017/18 price controls.

The Commerce Commission has introduced an additional incentive scheme aimed at encouraging efficiency in operational and capital expenditure – the Incremental Revenue Incentive Scheme (IRIS). This scheme assesses an EDB's actual operating and capital expenditure against forecast allowable expenditure determined by the Commission. If expenditure is less than the Commission's forecast, the EDB receives an incentive in the form of increased allowable revenue. If expenditure exceeds the forecast, the EDB receives a penalty. It is likely that NTL will significantly exceed the Commission's expenditure forecasts for the period 2015/16 – 2020/21 and consequently will face a penalty in the order of $2.3m over the period 2020/21-2026/27. A key driver of NTL's higher actual operating expenditure as compared with the Commission's forecasts is that the Commission did not include any allowance for the maintenance and operation of the 66kV lines acquired from Transpower in December 2014 (approximately $750,000 per year).

d. ODV Valuation

The Commerce Commission required all non-exempt EDB's under the control regime to undertake a detailed review of their 2004 ODV valuations and the roll forward of asset values to 2009. This review established the initial Regulatory Asset Base for the new control regime. Beyond 2009 assets are added at actual cost, depreciated using standard regulatory asset lives and are revalued annually at CPI rates. No further specific ODV valuations will be undertaken. Assets vested or contributed by consumers are now excluded from the regulatory base. Annual asset revaluations are included as part of regulatory line revenue.

The regulatory asset base is used by the Commission when determining the acceptability of the level of returns earned by an EDB

Line Pricing

Network Tasman's line pricing will be set and maintained in accord with the following objectives: -

- Provides a fair and reasonable rate of return (when measured on a pre-discount basis) on NTL's Regulatory Asset Base ;
- Will maintain a reasonable level of uniformity amongst like consumers across its regional areas;
- Recovers, where appropriate, Network Tasman line business costs, including capital costs, reasonably allocated to each group or class of consumer;
- Fully recovers transmission costs in a manner that reflects how these costs are incurred by each group or class of consumer.
- Provides appropriate economic signals to consumers relating to their use of the distribution and transmission systems;
- Provides medium term stability and certainty for consumers and retailers;
- Meets regulatory and public policy requirements imposed by Government and the Commerce Commission and the Electricity Authority;
- Is simple to understand, implement and administer;
- Ensures that the distribution-pricing component is only changed once in any 12-month period.

The directors will use their discretion to set the balance between objectives where they are in conflict with each other.

Deployment of smart meters provides new options for pricing structures which may provide improved economic signals to consumers as compared with existing pricing. Improving distribution pricing signals is likely to be increasingly important in the context of the uptake of evolving technologies such as solar panels, battery storage and electric vehicles. Network Tasman is currently conducting a review of its pricing structures, including consultation with retailers.

The Electricity Authority has emphasised the importance of changing existing distribution pricing structures to make them better aligned with the services provided (e.g. capacity). The Authority considers that distributors have strong incentives to review and change their pricing structures. However it has also indicated that if distributors do not make changes to make pricing structures service-based, it may intervene. In addition to conducting its own pricing review, Network Tasman is working with other distributors as part of the Distributors' Pricing Working Group to develop a set of standardised future pricing options. This will aid with increasing uniformity of pricing going forward, and the Authority's guidance will be sought by that group to ensure that the standardised pricing options are consistent with the Authority's views.

Line Charge Discounts

The line discounts encourage the continued commitment by consumers to the existing network installations and assist the company to provide very competitive pricing to consumers. Network Tasman has credited in excess of $164 million (including GST) in line discounts to consumers since the company was established in 1993.

Directors believe that the twice yearly payment of discounts in July and December each year has been well supported and propose to continue with this timing going forward. It is anticipated that Network Tasman will credit around $11.9 million (including GST) in line discounts to eligible consumers in the year ending 31 March 2016.

Fibre Networks

The company's existing fibre network covers parts of Nelson, Motueka, Blenheim and Marlborough. Chorus Limited was been selected as the local partner for the Government's Ultra-Fast Broadband network (UFB) in the largest towns across the top of the South Island. It has completed its deployment in Blenheim and is continuing its deployment in Nelson and Richmond. The investment will bring New Zealand's core telecommunications infrastructure into a fibre based future.

The Board of Network Tasman believe that the company's existing fibre investments have a clearly defined niche that services many major users in the region and will continue to provide acceptable returns on funds invested. The Board believes that the UFB may open up opportunities for Chorus and Network Tasman to work co-operatively to utilise both company's existing investments.

The company will continue to monitor industry developments to ensure that the existing investment in the network is protected and enhanced where appropriate.

The government proposes to extend the UFB programme to a further 5% of New Zealand's population. Candidate towns within the Nelson/Tasman/Marlborough area include Brightwater, Mapua, Motueka, Picton, Takaka and Wakefield. There may be an opportunity for Network Tasman to partner with Crown Fibre Holdings (CFH) in the deployment of network to those towns. Network Tasman is currently participating in the tender process run by CFH and has submitted a bid. The bid incorporated the condition that it was subject to approval by the NTL board and the Network Tasman Trust.

Metering

The company has purchased a shareholding in SmartCo Limited that was formed to deploy advanced metering infrastructure (AMI) across New Zealand. It is owned by 8 electricity lines companies. Network Tasman has committed to invest in AMI on its own network and on the MainPower Network via its shareholding in On Metering Limited.
As part of this investment, the company plans to deploy RF Mesh networks and advanced meters for contracted retailers. Once installed advanced metering will provide a number of benefits to the company and consumers including accurate and timely information, fault identification and other network diagnostic information.

Company policies and procedures

Network Tasman has a number of policies and procedures in relation to its dealings with consumers. These policies include:

(i) Undergrounding policy;
(ii) Vegetation policies;
(iii) New network connections;
(iv) Capital contribution policy.

Copies of these policies are available to consumers from the company's offices or by request. Copies can be provided to Trustees as and when requested.

Prevailing economic conditions

On-going investment in irrigation is placing significant demands on the company's rural networks. Overall demand for electricity on the company's network has grown over the past year, in large part due to a relatively cold winter. However, it is likely that the trend experienced in recently years of flat demand will prevail in future due to investments by consumers in energy efficiency measures and the past rises in electricity prices.

The company continues to experience growth in new connections and therefore customer contributions.

The company continues to closely monitor electricity demand and costs so it is able to respond promptly should economic conditions deteriorate.

Consumer Interests

One of the key benefits to consumers of consumer-Trust ownership comes from the dividends paid by the company to the Shareholder-Trust. The Trust then uses the funds to make tax-free distributions to consumers and to provide a grants scheme, a loans scheme and a scholarship scheme to community organisations and individuals within the Network Tasman distribution area.

The company considers that as a consumer-owned monopoly provider of electricity network services, it should be socially responsible. Accordingly it will:

- Aim to achieve no more than a fair return on capital;
- Aim to deal with those connected to its network in a fair and equitable manner;
- Adequately and reasonably consider consumers' concerns as to the quality of the network service provided; and
- Support projects intended to enhance the regional economy and provide consumer benefits. To this end NTL invests approximately $1 million per year on undergrounding electricity lines.

Appendix 1 - Statement of Accounting Policies

The accounting policies are disclosed annually in the Annual Report. The following accounting policies have been applied in the financial year to 31 March 2015 and disclosed in the Annual Report for that year.

Network Tasman Limited & Group

Notes to and forming part of the financial statements
For the year ended 31 March 2015

1. Statement of Accounting Policies

Statement of Compliance

The reporting entity is Network Tasman Limited and Group. Network Tasman Limited is a profit-oriented company registered under the Companies Act and its financial statements comply with section 44 of the Energy Companies Act 1992. The financial statements are for Network Tasman Limited and its interest in associate entities (Nelson Electricity Limited and On Metering Limited) and four wholly-owned non-trading subsidiary companies:

- Tasman Energy Limited
- Tasman Fibre Network Limited
- Tasman Generation Limited
- Tasman Investments Limited

Referred to as "The Group".

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for for-profit entities. Network Tasman is a tier 1 entity.

Basis of preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand. The financial statements have been prepared on the basis of historical cost with the exception of some distribution system assets and investment properties, which have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements comprise a Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and notes to these statements.

Critical judgements, estimates and assumptions in applying the entity's accounting policies

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from the estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

Network Tasman invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of metered usage figures provided by those retailers. Network Tasman is entirely reliant upon the accuracy of the monthly metered data supplied by the retailers. Estimates are inherent in this data, however any inaccuracies in the estimates are corrected in subsequent months when read data becomes available. All meters are read at least once a year, with the majority read bi-monthly. In future, the use of advanced meters will likely improve the accuracy of data provided by retailers.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating provisions for doubtful debts, assessing the level of any unrecoverable work in progress, calculating provisions for employee entitlements, assessing useful lives and impairment of property, plant and equipment, income tax and deferred tax.

The valuation of investment properties is undertaken by a registered valuer. This valuation involves the use of judgement, estimations and assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in preparation and presentation of these financial statements.

Investment in Associate

The associates are entities in which Network Tasman holds a substantial shareholding and exerts significant influence, but not control, over the operating and financial policies of the entity.

The equity method of accounting has been adopted to account for Network Tasman's interest in its associates. The investment in associates is initially recognised at cost and the carrying amount is increased or decreased to recognise the company's share of the surplus or deficit of the associate after the date of acquisition. Network Tasman's share of the operating surplus of the associate is recognised as a component of operating revenue before taxation in the statement of comprehensive income. Dividends received from the associate entities are credited to the carrying amount of the investment in the associate.

When Network Tasman's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Network Tasman does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Network Tasman's share in the associate's surplus or deficit resulting from unrealised gains on transactions between Network Tasman and its associate is eliminated.

Revenue

Line revenue
Retailer-owned electricity meters are read on the basis of constant cycles each year. Line revenues include an estimated amount for accrued sales as at 31 March 2015.

Customer contributions
Cash contributions from customers, including government agencies, relating to assets are credited directly to income when the asset is connected to the network. The Group acquires certain distribution assets for less than their replacement cost. Such assets are recognised at fair value and the difference between the cash cost and the fair value is recognised as revenue in the year of acquisition.

Property, plant and equipment

Initial recording
All owned items of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price plus any other costs directly attributable to bringing the item to working condition for its intended use. Donated assets are recorded at fair value.

Distribution system assets are stated at deemed cost based upon an independent valuation completed by PricewaterhouseCoopers as at 31 March 2004, except for vested assets that are recognised at fair value. Other property, plant and equipment, computer equipment and motor vehicles are recorded at cost.

Asset components

When the components of an item of property, plant and equipment have different useful lives, the cost of the item is allocated to its components and each component is accounted for separately in accordance with the company's Asset Management Plan (AMP).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale will be capitalised to the cost of that asset. Once an asset is put into productive use capitalisation of borrowing costs will cease.

All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that the expenditure increases the economic benefits over the total life of the item beyond those most recently assessed in determining the basis of the item's carrying amount.

Disposal of property, plant and equipment

Where an item of property, plant and equipment is disposed of any gains or losses are reported in the operating surplus. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the operating surplus in the year the item is de-recognised.

Depreciation

Depreciation of property, plant and equipment is calculated so as to expense the cost of the assets, less any residual value, over the assets' useful lives. The depreciation methods and depreciation rates used are as follows:

Asset class	**Depreciation method**	**Depreciation rates**
Primary distribution assets	Straight line	1.59% - 6.67%
Secondary distribution assets	Straight line	1.33% - 6.63%
Sub-station assets	Straight line	1.33% - 5.88%
Load control plant	Straight line	2.50% - 17.33%
Streetlights	Straight line	1.67% - 3.09%
Consumer connection assets	Straight line	2.22% - 33.33%
Communication assets	Straight line	6.15% - 6.67%
Buildings	Straight line / Diminishing value	2% - 20%
Plant and equipment	Diminishing value	20%
Motor vehicles	Diminishing value	20%
Computer equipment	Diminishing value	48%

These rates may vary from those allowed for taxation purposes.

The depreciation rates on distribution system assets in existence at the time of the previous revaluation (31 March 2004) are based on the assessed residual lives as determined in the calculation of the Optimised Depreciated Replacement Cost (ODRC).

New distribution assets (as from 1 April 2004) were assessed based on the standard useful lives as contained in the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Line Businesses as issued by the Commerce Commission and dated 30 August 2004. Pole structures, which have a physical life well in excess of the standard useful lives, were assessed by the company's qualified engineers.

Capital work in progress

Capital work in progress is not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Investment properties

Investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are recognised in the operating surplus in the year in which they arise. Valuations are determined on an annual basis by independent registered valuers, Duke & Cooke Limited.

Intangible assets

Computer Software
Computer software is separately acquired and capitalised at its cost as at the date of acquisition. After initial recognition, separately acquired intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Where the computer software has a defined life, it is amortised on a straight line basis over its life. Where the computer software does not have a defined life the associated amortisation rate has been estimated as 48% diminishing value.

Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each year is recognised in the operating surplus.

Taxation

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year and any adjustments to income tax payable in respect of prior years.

Current and deferred tax are recognised as an expense or income in the profit and loss, except where they relate to items that are recognised outside profit and loss (whether in other comprehensive income or directly in equity) in which case the tax is also recognised outside profit and loss.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is recognised, using tax rates that have been enacted or substantially enacted by balance date.

Receivables

Receivables are initially measured at fair value and subsequently measured at amortised cost using effective interest method, less any provision for impairment.

Investment income

Interest and rental income is recognised in the statement of comprehensive income as it accrues. Dividend income is recognised in the statement of comprehensive income on the date that the dividend is declared.

Impairment

Where an indicator of impairment exists either at an individual asset or at the cash generating unit level, the fair value of the asset will be determined by assessing the recoverable amount of the individual asset or the cash generating unit.

A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss for a non-revalued asset is recognised in the operating surplus for the year.

The carrying amounts of the Group's assets, other than inventory, investment property and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the operating surplus.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and investments in money market instruments with maturities of three months or less at their inception.

Employee entitlements

Employee entitlements include annual leave, a provision for sick leave entitlement and long service leave. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash outflows to be made by the Group taking into account the years of service, years of entitlement and the likelihood staff will reach the point of entitlement.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The amount recognised as an asset is depreciated over its useful life or the shorter of the lease term and useful life. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Goods and Services Tax (GST)

The statement of comprehensive income and cash flow statement have been prepared so that all components are stated exclusive of GST. All components in the statement of financial position are stated net of GST except for receivables and payables which are stated inclusive of GST.

Foreign currency

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in the operating surplus in the period in which they arise.

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements and have been consistently applied throughout the year.

New and amended standards and interpretations

The following new and amended New Zealand equivalents to International Financial Reporting Standards have been adopted as of 1 April 2014:

(a) Offsetting financial assets and financial liabilities – amendments to NZ IAS 32 (effective for accounting periods commencing on or after 1 January 2014)

Amendments to IAS 32 added application guidance in applying the criteria for offsetting financial assets and financial liabilities. Two areas were addressed by the amendments:

(a) Clarification that a right of set-off is required to be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

(b) The second amendment relates to gross settlement, such as clearing houses used by the banks and other financial institutions. The amendment included an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement.

The adoption of the amendments will have no impact on the recognition or measurement of financial asset and liabilities, and changes will be limited to presentation adjustments.

New standards issued but not yet effective

A number of new standards and interpretations have been issued but are not yet effective for the current year-end. The reported results and financial position of the Group is not expected to change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements.

The Group does not intend to adopt any of the new pronouncements before their effective dates.

Other than the above, there have been no changes in accounting policies and disclosures.

Appendix 2 - Key Assumptions used in the Financial Forecasts

1. No material changes in the strategic direction of the company
2. CPI adjustment has been allowed for of 2.0%
3. Money Market interest rate is budgeted to be 2.0% and 5.2% on term loans
4. Dividend to NTT $2,000,000
5. M&O costs are based on new Delta contract rates with $200,000 in extra faults costs and $300,000 in extra maintenance costs.
6. Taxation expense includes the adjustment for deferred tax.The line discount has a variable and fixed portion and is planned to be paid in August 2016 and December 2016.
7. No merger or acquisition activities provided for.
8. The investments division includes the 50% share of profits or losses in Nelson Electricity and On Metering Ltd and shareholders' advances and investment in to NEL, SmartCo and On Metering.
9. Continuation of NTL contracting directly with Transpower for transmission services.
10. Implementation of the joint stakeholder communication strategy agreed with the NTT.
11. Continuation of current customer contribution policies.
12. Undergrounding policy based on NTL's current policy.
13. No change to the current ownership structure or management services for Nelson Electricity Limited.
14. No significant return of capital to shareholders except for a fully imputed dividend (subject to cash flow and capital expenditure requirements).
15. Retention of ownership of investment properties.
16. Fibre budget based on continuation of current business structure with some reduction in revenues with the expiry of the Vodafone agreement.