STATEMENT OF CORPORATE INTENT

For the year ending 31 March 2020

networktasman

Your consumer-owned electricity distributor

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 2020 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 A: INFORMATION 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:

Our Vision:

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

- ***Successful*** commercially focused in all activities, prudently managed and financially stable
- ***Asset Management*** meeting our customers' future needs through the provision and management of long term infrastructure assets
- ***Long term*** focus on the management of our assets and investments for the long term benefit of our customers and shareholders

Our Mission:

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

Our Values:

- ***Safe*** in relation to the core electricity distribution business, is defined as zero Lost Time Injuries and Public Injury Accidents
- ***Reliable*** in relation to the electricity distribution business, is defined as meeting the reliability performance targets specified in section A.5
- ***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
- ***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 safety, reliability and financial 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;
- Minimise operating costs while maintaining safe and reliable networks; and
- Produce annually a comprehensive Asset Management Plan.

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; and
- 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, 50% shareholdings 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; and
- 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 2020*	80%
31 March 2021	79%
31 March 2022	77%

**** Note the ratio of shareholder's funds to total assets includes a deferred tax provision of $29.2 million. The term debt to shareholder's funds is 4.6%***

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 2019 are contained in Appendix 1.

A.5 Performance targets

Safety, Reliability and Financial performance targets

Safety, reliability and financial performance targets for the year ending 31 March 2020 and for the two subsequent financial years are set out below. The forecast performance targets for the year ending 31 March 2019 are provided for comparison purposes.

	FY19 Forecast	FY20 Target	FY21 Target	FY22 Target
Safety Performance				
Public Safety and Damage Events	0	**0**	0	0
Network Tasman and Contractors Lost Time Injuries (LTIs) not to exceed	2	**0**	0	0
Public Safety Management System (PSMS) certified & audited by Telarc	Yes	**Yes**	Yes	Yes
Reliability Performance				
SAIDI (Planned) – System Ave. Interruption Duration Index	109	**100**	100	100
SAIDI (Unplanned) – System Ave. Interruption Duration Index	101	**75**	75	75
SAIFI – System Ave. Interruption Frequency Index	1.35	**1.61**	1.61	1.61
CAIDI – Consumer Ave. Interruption Duration Index	156	**109**	109	109
Faults per 100km of line ≤	4.4	**6**	6	6
Faults not restored within 3 hours ≤	30%	**20%**	20%	20%
Financial Performance				
Total Company				
Surplus before interest, tax, line discounts, customer contributions	$20.6m	**$18.7m**	$17.8m	$17.8m
Operating Surplus after tax	$9.8m	**$8.3m**	$7.5m	$7.3m
Operating Surplus to shareholders' funds	4.8%	**4.0%**	3.5%	3.3%
Line Business Only				
Total network costs per consumer	$440	**$465**	$497	$505
Cash operating costs per consumer	$285	**$301**	$301	$301
Line charge discounts (excluding GST)	$10.7m	**$10.8m**	$10.8m	$10.8m

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 Calculations

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**.

Safety of Electricity Supply:

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

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.

Reliability of Electricity Supply:

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.

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.

CAIDI – Consumer Average Interruption Duration Index

$$\text{CAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Annual Consumer Supply Interruptions}}$$

CAIDI is a measure of the average duration in minutes of supply interruption.

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.

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:

2018/19 Forecast	**2019/20 Target**	**2020/21 Target**	**2021/22 Target**
$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 2019/20 – 2028/29:

Year	Capital Expenditure ($Million)
2019/20	15.0
2020/21	13.6
2021/22	17.4
2022/23	12.6
2023/24	14.8
2024/25	10.9
2025/26	13.7
2026/27	10.2
2027/28	6.6
2028/29	5.5
Total	**120.2**
Average per annum	**12.0**

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 2019. 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.

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 $1,050,000 is forecast for the 2019/20 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 of the Network Tasman Trust hold the shares in Network Tasman on behalf of the consumers. 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 have included:

- 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 of 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 committed to re-entering ownership of meters and is part of a consortium of line companies who 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.

The government appointed Electricity Price Review Panel has been conducting a full review of the electricity sector during 2018. Network Tasman has worked with the Electricity Networks Association (ENA) in providing submissions to the Panel.

The Panel released its Options Discussion paper on 20 February 2019 which is largely supportive of current EDB models. It promotes options that reflect the importance of new technology, greater resilience and improved customer choice, as well as options that improve market transparency and address practices that may hinder competition or unfairly penalise some consumers.

The public are invited to submit their views on these preliminary options through another round of stakeholder engagement closing on the 22 March 2019. The Panel expects to deliver its final recommendations to the Minister by mid-2019.

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; and
- Share the benefits of any efficiency gains with consumers including through lower distribution prices.

As a controlled Electricity Distribution Business (EDB), Network Tasman is required to annually report its compliance against its price-quality pathway. 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.

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

The company is also 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

At the beginning of each 5-year control period the Commerce Commission resets network pricing limits for controlled EDBs to reflect its view of distribution network cost recovery with a reasonable

rate of return on capital. The current 5-year period commenced in 2015/16. Network Tasman's maximum allowable distribution revenue increases annually at the rate of inflation until the next reset by the Commission in April 2020.

In the current 5-year regulatory period the Commission considers the acceptable upper limit for the returns (WACC) an EDB can earn on its regulatory asset base to be 7.19% per annum.

The Commission's price control mechanism also allows lines businesses to recover "pass-through and recoverable" costs. These primarily relate to transmission charges but also cover industry levies, local authority rates and adjustments, incentives and penalties determined by the Commission.

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, outage duration and frequency (SAIDI & SAIFI), when measured against historic data of the previous 5-year period. The Commission may take action if the quality control formula is breached twice in any three consecutive year period.

A quality incentive scheme is also in place which rewards EDBs which achieve higher levels of quality than a specified target while penalising those who are below target by adjusting the amount of revenue that can be earned from consumers. For Network Tasman, the revenue impact from the incentive scheme is +/-$280,000 per annum depending on the actual levels of SAIDI and SAIFI achieved two years prior.

c. Compliance with the control regime

Pricing

Over the last 5 years Network Tasman has consistently maintained prices that are significantly below the total distribution and transmission revenue permitted by the Commerce Commission. Our pricing for the 12 months commencing 1 April 2019 is compliant with the price control for both the distribution price component and the recoverable and pass-through component, with total revenue being significantly below the maximum permitted revenue (by more than $1m per annum).

Network Tasman's total delivery prices for most consumers will decrease by from 1 April 2019. For a typical residential consumer using 8000 kWh per annum, Network Tasman's charges to retailers will decrease by 38 dollars per year.

This price change effectively represents:

(i) No change in the distribution network component of prices; and
(ii) A 16 per cent reduction in the transmission component of our prices.

The transmission component of our prices fall due to a reduction in Transpower's interconnection prices for the use of the national grid have fallen from $113.77 per kW in 2018/19 to $109.38 per kW in 2019/20 and a reduction in Network Tasman's chargeable demand.

For large commercial consumers with connections of more than 150 kVA, the distribution component of Network Tasman's pricing also remains unchanged. Transmission prices for these customers will reduce, reflecting the reduction in Transpower's pricing. The impact of transmission price changes on

individual large commercial consumers will vary depending on how their particular metered demands have changed compared to last year.

Quality

Over the past 5 years Network Tasman has 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.

Quality levels achieved in the 2017/18 year have resulted in a positive impact of $174,000 on permitted revenue for the 2019/20 pricing year.

Compliance – pass-through balance calculation

Network Tasman is in discussions around the carrying forward of unrecovered revenue from past to future pricing periods with the Commerce Commission on the regulatory compliance statements for the current 5-year period.

ODV Valuation

The Commerce Commission required all non-exempt EDBs 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 (RAB) 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 RAB. Annual asset revaluations are included as part of regulatory line revenue.

The RAB 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 whereby line pricing:

- Provides a fair and reasonable rate of return (when measured on a pre-discount basis) on Network Tasman'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 the Government, Commerce Commission and Electricity Authority;
- Is simple to understand, implement and administer; and
- 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 the 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 and end customers. Network Tasman is working extensively with other EDBs and the ENA as part of a coordinated national approach to examining future pricing options and pricing alignment.

Line Charge Discounts

The line discounts encourage the continued commitment by consumers to the existing network installations and assist the company to provide good value to consumers. Network Tasman has credited in excess of $200 million (including GST) in line discounts to consumers since the company was established in 1993.

In the context of regulatory developments and the IRD review of discounts, the company made a change with discounts being posted, rather than discretionary from 1 April 2019. The use of a posted discount means that our discounts are now disclosed in our pricing schedule, providing increased certainty to consumers on the level and application of discounts. Posting the discount has not affected the total discounts provided and it is anticipated that Network Tasman will credit around $12.4 million (including GST) in line discounts to eligible consumers in the year ending 31 March 2020. Under the posted discount regime, discounts will be applied to electricity usage during the 12 months ending March 2020. The discount is planned to be paid in Sept 2019 (entitlement August 2019) and April 2020 (entitlement March 2020).

Fibre Networks

The company's existing fibre network covers parts of Nelson, Motueka, Blenheim and Marlborough. Chorus Limited was selected as the local partner for the Government's Ultra-Fast Broadband network (UFB and UFB2) in the largest towns and smaller urban areas across the top of the South Island. It has completed its deployment in Blenheim and is in the final stage of its deployment in Nelson and Richmond. 2019 through to 2023 will see Chorus fibre extended to the smaller remaining candidate towns within the Tasman/Marlborough area including Brightwater, Motueka, Takaka and Wakefield. 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 has undertaken a strategic review to ensure the fibre business remains relevant to our suppliers and the network of choice in our niche market.

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

Metering

The company is a shareholder in SmartCo Limited that was formed to deploy advanced metering infrastructure (AMI) across New Zealand. Network Tasman has committed to invest in AMI on its own network and on the MainPower Network via its shareholding in joint venture On Metering Limited.

As part of this investment, the company has now competed the deployment phase of RF Mesh networks and advanced meters for contracted retailers. 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. A benefit is that the reach of the SCADA has now been extended across the RF Mesh network.

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; and

(v) Medically dependant consumer's 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

Overall consumption of electricity delivered by the company's network has grown strongly over the past year. Strong growth in the number of connections has offset ongoing reductions in the average consumption per connection.

The general economic outlook for the region is positive, with economic growth significantly outperforming the national average. 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 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 Network Tasman invests approximately $0.5 million per year on undergrounding electricity lines.

Environmental Sustainability

Network Tasman's aim is to work towards environmental sustainability in our operations. This objective fits within our principal objective, which is to operate as a successful commercially focused business, prudently managed and financially stable. Network Tasman also has a long term focus on the management of our assets and investments for the long term benefit of our customers and shareholders.

Network Tasman believe that businesses are responsible for achieving good environmental practice and operating in a sustainable manner. We are therefore committed to reducing our environmental impact and continually improving our environmental performance as an integral and fundamental part of our business strategy and operating methods. It is our priority to encourage our customers, suppliers and all business associates to do the same. Not only is this sound commercial sense for all - it is also a matter of delivering on our duty of care towards future generations.

We will wholly support and comply with or exceed the requirements of current environmental legislation and codes of practice.

Our Environmental Sustainability Policy provides for:

- Stakeholder consultation in our decision making where material trade-offs exist between environmental, social and financial issues;
- Sustainable use of natural resources to protect the biosphere by the use natural resources in a sustainable way;
- Reduction and disposal of waste by minimising waste, especially hazardous waste, and wherever practicable reuse or recycle materials in our operations;
- Wise use of energy;
- Risk reduction by understanding the risks to the environment that our operations pose and, based on those risks, prioritise our efforts to eliminate or minimise potential environmental hazards caused by our operations;
- Restoration of the environment; and
- Commitment of management resources

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 2018 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 2018

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 1993 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 wholly-owned non-trading subsidiary company Tasman Energy 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 Limited and Group is a tier 1 entity.

Basis of preparation

These financial statements are presented in New Zealand dollars, which is the Groups functional and presentation currency, rounded to the nearest thousand dollars ($'000) unless otherwise stated. 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.

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.

The Statement of Comprehensive Income and Cash Flow Statement have been prepared so that all components in the balance sheet are stated exclusive of GST. All components of the Balance Sheet are stated net of GST except for receivables and payables which are stated inclusive of GST.

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

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 following are new standards that may impact the Network Tasman Limited. The Group does not intend to adopt any of the new pronouncements before their effective dates.

NZ IFRS 15 Revenue from Contracts with Customers – Effective 1 April 2018

NZ IFRS 16 Leases – Effective 1 April 2019

2. Summary of Key Accounting Policies

Key accounting policies have been adopted in preparation and presentation of these financial statements and can be found in the specific note to which the policy applies.

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.

These accounting policies have been applied consistently to all years presented unless otherwise stated.

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

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 2018.

Lease Income

The income from leases is recognised in the statement of comprehensive income as it accrues.

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.

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.

Change in fair value of investment properties

The increase or decrease arising from the investment property valuation is recognised in the statement of comprehensive income.

Key Judgement

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. With the majority of customers on advanced meters, the reliance on estimates is reduced. 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.

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 statement of comprehensive income, except where they relate to items that are recognised outside statement of comprehensive income (whether in other comprehensive income or directly in equity) in which case the tax is also recognised outside statement of comprehensive income.

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.

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.

Receivables

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

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.

Key Judgement

Judgement is exercised in choosing the levels of provision for doubtful receivables and assessing the factors impacting recoverability.

Advances to associates

Advances to associates are recognised at amortised cost. There are no indictors of impairment on these advances. The balance is classified as a current asset as the advances are repayable on demand. No interest is charged on the advances to associates.

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-recognise.

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	4% - 33%
Buildings	Straight line / Diminishing value	2% - 20%
Meters	Diminishing value	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.

Assets under construction

Assets under construction are 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.

Key Judgement

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

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.

Key Judgement

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

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.

Key Judgement

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

Investment in Associate

Associate companies are accounted for using the equity method.

On initial recognition the investment in associate is recognised at cost, and the carrying amount is increased or decreased to recognise the investors share of the profit or loss of the investee after the date of acquisition.

When Network Tasman’s share of losses in an associate equals or exceeds its interest in the associate or joint venture, Network Tasman discontinues recognising its share of further losses.

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.

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.

Key Judgement

Judgement is exercised in using consumer price index long run usage index and discount rates to determine the Group’s liability for non-vested long service and retiring leave entitlements.

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.

Appendix 2 - Key Assumptions used in the Financial Forecasts

The key assumptions underlying the targets include:

Strategy	No material changes in the strategic direction of the company
CPI	CPI adjustment has been allowed for at 2.0%
Interest Rates	Money Market interest rate is budgeted to be 1.6% and Term Loans at 4.0%
WACC	FY20 targets are based on the current five-year WACC of 7.19% applying to 31 March 2020. From FY21 targets are based on a next five-year period projected WACC of 5.19%
Dividend	Dividend to Network Tasman Trust $2,000,000
M&O costs	Maintenance & Operations costs are based on Delta contract rates
Taxation	Taxation expense includes the adjustment for deferred tax.
Line Discount	There is a change to a posted discount. For the majority of consumers, the line discount is based on kWh consumption and is planned to be paid in Sept 2019 (entitlement August 2019) and April 2020 (entitlement March 2020).
Merger & Acqn’s	No merger or acquisition activities provided for
JVs	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
Transpower	Continuation of Network Tasman contracting directly with Transpower for transmission services
Shareholder	Continuation of the joint stakeholder communication strategy agreed with the Network Tasman Trust
Contributions	Continuation of current customer contribution policies
Undergrounding	Undergrounding policy based on the company’s current policy
NEL	No change to the current ownership structure or management services for Nelson Electricity Limited.
Capital Structure	No significant return of capital to shareholders except for a fully imputed dividend (subject to cash flow and capital expenditure requirements)
Properties	Retention of ownership of investment properties
Fibre	Fibre revenue budget based on continuation of current business structure with some reduction in revenues with the expiry of the Vodafone agreement