

# STATEMENT OF CORPORATE INTENT

For the year ending 31 March 2024

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## Statement of Corporate Intent

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 2024 and for the two subsequent financial years.

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

This report is prepared in two sections:

- Section A contains information required under Section 39 (2) of the Energy Companies Act 1992.
- 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

### 1. Purpose 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.*

• <b>Successful</b>	commercially focused in all activities, prudently managed and financially stable
• <b>Asset Management</b>	meeting our customers’ future needs through the provision and management of long-term energy infrastructure assets
• <b>Long term</b>	focus on the sustainable 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:

• <b>Safe &amp; Wellbeing</b>	we care for the safety of all staff, contractors and the communities in which we operate
• <b>One Team</b>	we work as one team and support each other
• <b>Innovative</b>	we are a company that embraces change, that takes the best of existing network practices and incorporates new and alternative technologies to deliver a modern, sustainable, safe & reliable network that meet the customer’s needs at the lowest possible cost
• <b>Collaborative</b>	we are open to collaboration/trials on new technologies
• <b>Trusted</b>	we do what we say, earning respect by being transparent, fair and doing the right thing

## 2. Objectives of Network Tasman

### To achieve the company's key objectives Network Tasman will:

In relation to the core electricity distribution business:	<ul style="list-style-type: none"><li>• Seek to achieve the safety, reliability and financial performance;</li><li>• Encourage competition on Network Tasman's networks;</li><li>• Facilitate the decarbonisation of the regional economy</li><li>• Annually review the company's future strategies and direction;</li><li>• 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;</li><li>• Minimise operating costs while maintaining safe and reliable networks; and</li><li>• Produce annually a comprehensive Asset Management Plan.</li></ul>
In making commercial decisions, such as setting line charges:	<ul style="list-style-type: none"><li>• We will act as a good corporate citizen;</li><li>• We will provide a work environment where individuals can flourish;</li><li>• We will act honestly and with integrity;</li><li>• We will provide our consumers with a quality network service;</li><li>• We will create a safe environment for our consumers, the public and our staff &amp; contractors;</li><li>• We will strive to improve our environmental performance and minimise, where practical, adverse effects on the environment; and</li><li>• We will endeavour to operate within the framework and constraints of industry regulation.</li></ul>

### 3. 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, the company has interests in complementary businesses of fibre optic networks, advanced metering, investment property and 50% shareholdings in Nelson Electricity Limited and On Metering Limited.

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 ongoing 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.

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

#### **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.

#### **Network Tasman Fibre**

The company's existing fibre network covers parts of Nelson, Motueka, Blenheim and Marlborough and remains focused on providing a cost-effective and reliable service to our customers. The fibre business remains focused on the SME and rural sub-division markets where the company's existing network assets can be leveraged.

The introduction of Ultra-Fast broadband services to large parts of the community has increased the uptake of fibre in the areas serviced. However, there remain a number of areas where the company believes we can provide a cost-effective solution to customers unlikely to receive UFB services.

While meeting the competition in the market, the company will continue to monitor industry developments to ensure that the existing investment in the network continues to meet the needs of our customers and provides an acceptable rate of return on funds employed.

## Metering

The company is also a shareholder in Smartco Limited which was formed to deploy advanced metering infrastructure (AMI) across New Zealand. Network Tasman has invested in AMI on its own network and on the MainPower network in North Canterbury via its 50% shareholding in joint venture On Metering Limited. Network Tasman has appointed one Director to the Board of OML.

In addition to financial returns from this investment, advanced metering will provide a number of benefits to the company and our consumers including accurate and timely information, fault identification and other network diagnostic information.

## Property

The company currently has a portfolio of industrial and commercial investment properties. The strategy of the company remains to focus on the property assets currently owned by the company. The remaining undeveloped land at 24, 52 & 68 Main Road Hope provides opportunities to stage development of the land when suitable tenants are secured.

## 4. 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:

Ratios	2022/23 Forecast	2023/24 Target	2024/25 Target	2025/26 Target
Shareholder's Funds to Total Assets*	83%	80%	78%	77%
Net Term Debt to Shareholders Funds	(3%)	3%	8%	9%

\* Note the ratio of shareholder's funds to total assets includes a deferred tax provision of \$33.8 million (2022/23).

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.

## 5. Accounting Policies

Network Tasman is a profit-oriented company registered under the Companies Act 1993 and its financial statements comply with the Financial Reporting Act 1993 and section 44 of the Energy Companies Act 1992. The reporting entity is Network Tasman Limited and Group.

The financial statements are 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 and Group is a tier 1 entity.

The detailed accounting policies applied in the preparation of the financial statements are consistent with the accounting policies disclosed in the 2022 Annual Report<sup>1</sup>.

<sup>1</sup> <https://networktasman.co.nz/annual-report/>

## 6. Performance targets

### *Safety, Reliability and Financial performance targets*

Safety, reliability and financial performance targets for the year ending 31 March 2024 and for the two subsequent financial years are set out below. The forecast performance targets for the year ending 31 March 2023 are provided for comparison purposes.

	FY23 Forecast	FY24 Target	FY25 Target	FY26 Target
<b>Safety Performance</b>				
Public Safety and Damage Events	0	0	0	0
Network Tasman and Contractors Lost Time Injuries (LTIs)	0	0	0	0
Public Safety Management System (PSMS) certified & audited by Telarc	Yes	Yes	Yes	Yes
<b>Reliability Performance</b>				
SAIDI (Planned) – System Ave. Interruption Duration Index	166	100	100	100
SAIDI (Unplanned) – System Ave. Interruption Duration Index	102	75	75	75
SAIFI – System Ave. Interruption Frequency Index	1.77	1.77	1.77	1.77
CAIDI – Consumer Ave. Interruption Duration Index	151	99	99	99
Faults per 100km of line ≤	6	6	6	6
Faults not restored within 3 hours ≤	20%	20%	20%	20%
<b>Financial Performance</b>				
<u>Total Company</u>				
Surplus before Interest, Tax, Line Discounts, Customer Contributions	\$22.4m	\$21.4m	\$22.0m	\$22.3m
Operating Surplus after Tax	\$10.1m	\$9.4m	\$8.8m	\$8.2m
Operating Surplus to Shareholders' Funds	4.2%	3.8%	3.5%	3.2%
<u>Line Business Only</u>				
Cash Operating Costs per Consumer	\$307	\$328	\$340	\$344
Line Charge Discounts (excluding GST)	\$12.0m	\$12.1m	\$12.5m	\$12.8m

The line business cost performance targets are recognised as standard industry measures. A table of performance measures is included in Appendix 3 and a list of the key assumptions used in the financial forecasts is contained in Appendix 5.

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

### **Health, Safety & Well Being**

Our Vision is: to ensure all company-related work is done safely and efficiently.

Our Aim is: to ensure all workers go home safe and healthy each day.

Network Tasman is committed to providing a safe environment for the public, its staff and contractors. The key focus is to ensure that the company has appropriate health and safety systems and processes and that the culture within the company and our contractors remains focused on good health and safety outcomes.



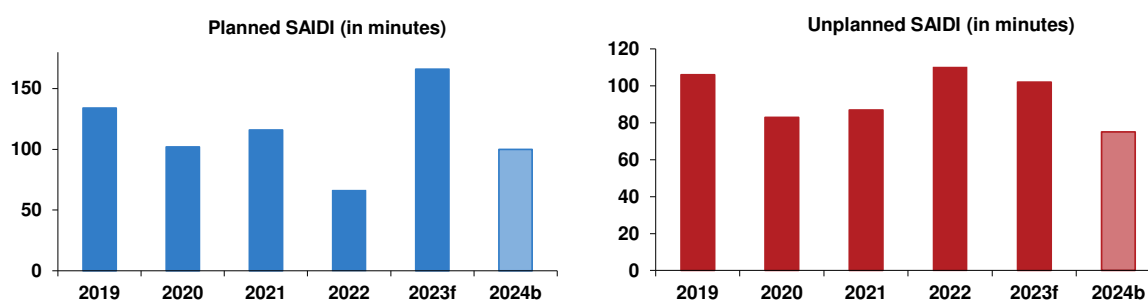
The company must continue to invest in our staff. Activities and initiatives are planned to continue to enhance the performance of the company in the management of health and safety risks. We will continue to implement appropriate health and well-being initiatives for all NTL staff. NTL's ability to both attract and retain top talent will remain a key priority.

## Reliability Performance

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

Network Tasman is five years into a ten-year project to replace 210 km of aging light copper conductor across our network. While this project will improve the resiliency and reliability of our network, it will also increase the level of planned outages during the project.



A copy of the company's Asset Management Plan is available on the company's website<sup>2</sup>.

## 7. Dividend Policy

We will aim to manage our capital structure so that we have sufficient financial flexibility to cope with and recover from future catastrophic events. Cost-effective insurance for underground cables and overhead lines (or a significant drop in network revenues following a catastrophic event) is not available. Accordingly, we should have relatively conservative debt gearing.

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

- Consider the company's current and forecast financial position and Asset Management Plan;
- Ensure retention of an appropriate level of funds to meet current and forecast investment and operational funding requirements;
- Meet all funding covenants;
- Protect the company's ability to respond to natural disasters or major events impacting the network;

<sup>2</sup> <https://networktasman.co.nz/asset-management-plans/>

- Meet the solvency test pursuant to section 53 of the Companies Act 1993; and
- 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.

Subject to the consideration above in determining the recommended dividend, the Directors have adopted a dividend policy paying an annual dividend in a range of 65% - 75% of the non-regulated businesses after-tax surplus (excluding property valuations) subject to the allowance for funding of non-regulated business's capital projects and shareholder requirements. The final decision on the percentage to be applied shall be taken closer to but before the end of the financial year and in consultation with the shareholders.

The company is forecasting dividends as follows:

	2022/23 Forecast	2023/24 Target	2024/25 Target	2025/26 Target
Dividend Pay-out	\$1.8 million	\$2.0 million	\$2.0 million	\$2.5 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. The company is subject to regulatory resets on a five-yearly cycle, the next on 1 April 2025.

The forecast dividends are based on 65% of the forecast non-regulated businesses after-tax surplus (excluding property valuations).

## 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 2023. This report will contain:

- A report from directors covering operations for the half-year period;
- Unaudited financial statements for the half-year period in respect of the company; and
- 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:

- A report from directors covering the operations for the year;
- Audited financial statements for the financial year in respect of the company;
- 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
- Any other information directors consider necessary or that has been reasonably sought by shareholders to enable an 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.

## 9. Acquisitions and divestments

As a general policy, any new business proposal 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 value. In addition, the questions of control and risk associated with the investment will be considered.

The company's board of directors will consider all business proposals. In cases where the investment proposals may have a significant effect on 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 the 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.

## SECTION B: INDUSTRY OVERVIEW AND ADDITIONAL INFORMATION

### 10. 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. This section reviews recent industry developments and set out intentions with regard to consumers in the areas of company operations that may concern the shareholders.

#### Economic conditions

The Nelson / Tasman region continues to experience solid growth in residential, industrial and commercial construction activity. Load growth has continued to remain above long-term averages supporting growth in new connections. However, after a long period of growth, we are anticipating a year of more subdued growth, especially in the residential sector.

Network Tasman is experiencing some cost pressures as the cost escalation provisions of our maintenance contract are triggered, and key raw material prices increase. These cost increases will put upward pressure on our maintenance and capital investment programmes.

The company has considered these factors when budgeting new connection numbers, network demand and capital investment plans for 2023/24.

#### Industry Developments

The electricity distribution sector as well as the wider electricity industry is likely to face a number of significant challenges over the next decade.

The Climate Change Commission's advice to the Government outlining how New Zealand can reach its climate target makes a number of recommendations that will have wide-ranging implications for the New Zealand economy and the electricity sector as a whole.

The Government's aim to reach net-zero long-lived gas emissions by 2050 and the focus amongst other things on reducing transportation emissions will drive capital investment in distribution networks across the country. While there remains uncertainty on the rate at which electric vehicles and industrial decarbonisation will occur, Network Tasman remains well-positioned to respond to these challenges as they arise.

## 11. Regulatory Compliance and Pricing Strategy

The electrical industry and electricity market are subject to considerable review and oversight by government and regulatory agencies.

Network Tasman is primarily subject to regulation from the Commerce Commission and the Electricity Authority.

Under Part 4 of the Commerce Act, the Commerce Commission regulates the revenue and quality of line services delivered by all electricity distribution businesses, except those meeting the consumer ownership exemption provisions of the Act. Network Tasman does not meet these exemption provisions, so is subject to price/quality regulation administered by the Commerce Commission. Part 4 of the Commerce Act also establishes an Information Disclosure regime that requires electricity distribution businesses to publish a range of information that allows interested persons to observe and compare the performance of regulated businesses.

The Electricity Authority develops, administers and enforces the market rules that govern most aspects of New Zealand's electricity industry including generation, transmission, system operation, security of supply, market arrangements, metering, distribution and retail. Of particular relevance to distributors is access regulation, which aims to provide generators and retailers with equal access to transmission and distribution networks, and the Authority's focus on distribution pricing.

Current or upcoming regulatory projects that are likely to influence Network Tasman's operations are:

- Future regulation of the distribution sector – The electricity industry has a critical role to play in decarbonising the wider energy system. Within the electricity system, distribution networks are a key enabler of this transition as they will transmit the greater amounts of electricity that will be demanded (and supplied). The Electricity Authority has a workstream underway to review the regulatory framework that applies to distribution networks to ensure the right regulatory settings to support the transition to a low-emissions economy.
- Input Methodologies review – Input methodologies are the rules and processes that underpin the Commerce Commission's regulation of electricity distribution businesses. These include how distributors value assets, allocate costs, and are compensated for their investments. Significant changes to the Input Methodologies have the potential to affect the revenues Network Tasman can earn.
- Information Disclosure review – Electricity distribution businesses are required to disclose information about their performance. With the electricity sector entering a time of change and opportunity as a result of climate change, decarbonisation and growing use of distributed energy resources, the Commerce Commission is reviewing the information distributors are required to disclose. The Commission has completed its first tranche of the review, which has broadened the scope of information to be disclosed to include decarbonisation and greater detail on service quality and asset management. A second tranche of the review will be undertaken in 2023 and will consider further work on the three focus areas of the first tranche of work.
- Transmission pricing methodology – Transpower has implemented the new transmission pricing methodology (TPM) and notified its customers of their charges under the new TPM in December 2022. The overall effect of the new TPM on Network Tasman's transmission charges is limited. However, changes in Network Tasman's cost allocation methodology (to reflect the new TPM) mean that the effect of the new TPM will vary across consumer groups.

- Removal of Low Fixed Charge (LFC) Regulations – The phased removal of the LFC regulations will enter its second year in 2023/24. This second year of the phase-out sees the fixed charge levied on consumers using the regulated tariff increase from 30c/day to 45c/day.
- Distribution pricing scorecards – Each year the Electricity Authority publishes scorecards that rate distributors’ price structures and reforms. The Authority has stated that as emerging technologies such as electric vehicles and rooftop solar become more widely adopted, and businesses decarbonise their processes, it becomes more important for distribution prices to signal better the cost of using the network as this promotes more efficient investment in and use of these technologies. The Authority uses the scorecards as a mechanism to guide and encourage distributors towards adopting more efficient price structures.

## Line Pricing

Network Tasman’s line pricing will be set and maintained in accordance with the following objectives whereby line pricing:

- Provides a fair and reasonable rate of return (when measured on a post-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 price structures which can provide improved economic signals to consumers. Improving distribution pricing signals is increasingly important in the context of the uptake of evolving technologies such as solar panels, battery storage and electric vehicles, and assisting the transition to a low-carbon economy. Network Tasman is working with other EDBs and the ENA as part of a coordinated national approach to examining and implementing future pricing options.

For the coming year, Network Tasman has introduced a Peak/Off-peak tariff for consumer groups 1 and 2. This new tariff is designed to encourage consumers to shift demand away from peak periods to make better use of existing network capacity and delay or avoid costly network upgrades.

Network Tasman's prices are primarily comprised of two components, (1) distribution prices, which recover the costs of operating the distribution network and (2) transmission (and related) prices which are levied by Transpower for the use of the national transmission grid.

For mass market consumers distribution prices will increase for 2023/24 by an average of 4.4%, this increase is offset by a 9% decrease in Network Tasman's transmission prices. Overall, Network Tasman's line charges for these consumers are forecast to increase by approximately 1.7% on average.

For a typical residential consumer using 8,000 kWh per annum, Network Tasman's post-discount lines charges will decrease by \$2 per annum. For these consumers, the distribution charge (after discounts) will increase by \$25/year and transmission charges will decrease by \$28/year.

The Commerce Commission sets price and quality standards for each regulated distributor for 5-year periods. At the beginning of each 5-year period, the Commerce Commission sets a revenue cap for each regulated distributor. These revenue caps reflect the Commerce Commission's view of distribution network cost recovery with a reasonable rate of return on capital. The current 5-year period commenced in 2020/21.

Over the last 5 years, Network Tasman has consistently recovered revenues that are significantly below the revenue cap permitted by the Commerce Commission. Our forecast revenue for the 12 months commencing 1 April 2022 is compliant with the Commerce Commission's revenue cap. Total revenue is currently forecast to be more than \$3m under the Commission's cap.

## **Quality**

The quality/reliability aspect of the Commerce Commission's 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 10-year period. The Commission may take action if its specified quality standards are breached.

A quality incentive scheme is also in place to reward EDBs that 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 maximum revenue impact from the incentive scheme is capped at +/- \$529,000 per annum. The actual impact depends on the levels of planned and unplanned SAIDI achieved during the given year.

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 regulated quality standards.

Quality levels achieved in the 2022/23 year have resulted in a \$3,159 reduction in permitted revenue for the 2024/25 pricing year.

## **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 \$215 million (including GST) in line discounts to consumers since the company was established in 1993.

Network Tasman publishes line prices and discounts at the start of the year as part of our pricing schedule. Based upon forecast consumption, Network Tasman is forecast to credit around \$13.9

million (including GST) in line discounts to eligible consumers in the year ending 31 March 2024. Discounts will be credited to consumers' power accounts in September 2023 and April 2024.

## Future Pricing Strategy

The manner in which electricity is used and generated is continuing to evolve. In this context, Network Tasman considers it important to assess whether there are improvements that can be made to our price structures to enable and support consumer choice in new technologies, while at the same time continuing to provide a sustainable electricity network.

Prices are a key tool in managing this balance. Prices that accurately signal the cost of using our network allow consumers to make good investment decisions. This is because prices influence when consumers use electricity and how much they use. Prices also help them to make good investment decisions about purchasing appliances like solar and batteries or electric vehicles. Consumers can use prices to work out if the appliances could help save them money through energy savings or if shifting more of their energy use to periods of the day when the cost of electricity is cheaper.

Network Tasman completed two significant pricing projects during the 2022/23 year.

- A detailed review of the prices available to consumer groups 1 and 2 has resulted in the introduction of a new peak/off-peak time-of-use tariff for the 2023/24 pricing year; and
- The introduction of a new *profiled connection* that allows consumers to connect to areas of our network that are at capacity during peak periods without triggering costly upgrades.

In both projects, Network Tasman has introduced products that will allow more electricity to be transported across the existing network.

The new peak/off-peak tariff makes it easier for consumers to lower their electricity costs by moving their electricity use to off-peak periods. In doing so, consumers will reduce peak demand on our network and defer, or avoid, the need for Network Tasman to undertake costly network upgrades.

When an area on our network has insufficient (peak) capacity to supply any more connections, new load seeking to connect to that area of our network is often required to cover some, or all, of the cost associated with increasing the network capacity to supply them. For some new loads, this cost is prohibitive. The new profiled connection allows new connections to reduce or avoid these costs by agreeing to reduce the capacity of their network connection during local network peak periods.

Network Tasman has an active work programme to progressively review and reform prices as appropriate. The key project being undertaken in 2023/24 is a review of Group 3 prices.

## 12. Information for Consumers

Network Tasman has information on our website in relation to its dealings with consumers including:

- Regulations and responsibilities regarding vegetation near power lines
- Policy on connecting new loads to the network
- Policy on easements
- Network Connection Code (e.g. for new generation)

Copies of these policies are available to consumers from the company's offices or by request.



## 13. 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 that can use 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, the company 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;
- Facilitate the decarbonisation of the Nelson/Tasman economy
- 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 in undergrounding electricity lines on a case-by-case basis based on the merits of the proposal and in the interests of the network.

## 14. Environment, Sustainability and Governance (ESG)

### Environmental Sustainability

Network Tasman's aim is to work towards environmental sustainability in all our operations. Network Tasman believes that environmental sustainability is integral to operating as a successful well-managed business.

We are 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. The Board has considered the impact of climate change adding this to our risk register and taking the necessary steps to protect network assets.

Our Environmental Sustainability Policy provides for:

- Providing an open access and sustainable electricity network, independent of any political group, that represents the long-term interests of all consumers;
- An adaptive approach to understanding our impact and our role in our social, economic and physical environment;
- Stakeholder consultation in our decision-making where material trade-offs exist between environmental, social and financial issues;
- Regularly updating our carbon emissions assessment in order to assess operational environmental sustainability;
- Sustainable use of natural resources to protect the biosphere by the use of 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

## Climate Change

The Climate Change Response (Zero Carbon) Amendment Act 2019 and Climate Change Commission are accelerating the drive for the decarbonisation of the economy. The company continues to monitor the effects climate change has on our network assets including the possibility of sea level rise, coastal inundation and the frequency and severity of major storm events.





In considering the impacts of climate change on our business and networks we ask the following:

- What key transition and physical risks does climate change present?
- What plans do we need to have in place to adapt to climate change and mitigate risks
- What actions are we taking now to ensure the relevance and resilience of Network Tasman’s business model in a low-carbon economy
- What steps can we take to enable the de-carbonisation of the regional economy?

## Sustainability (ESG) Reporting

The terms ‘climate change’, ‘sustainability’, ‘greenhouse gas footprint’ and ‘ESG’ are consistently used interchangeably by organisations.

These key terms and their application to Network Tasman are defined as follows:

Term	Definition	Network Tasman context
 <b>Climate Change</b>	<ul style="list-style-type: none"> <li>• Driven by global warming caused by the release of greenhouse gases.</li> <li>• Expressed by changing weather patterns, sea-levels, global mean average temperatures, ocean acidity and other natural feedback loops.</li> </ul>	<ul style="list-style-type: none"> <li>• Identifying, understanding, and acting on the physical and transitional risks presented by the changing climate and associated regulatory and consumer context.</li> </ul>
 <b>Sustainability</b>	<ul style="list-style-type: none"> <li>• The concept of being able to support, maintain and endure over time. Often referred to as built on three key pillars: environment, social, and economic.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring that business activities are resilient in the face of a shifting environment, society and economic market.</li> </ul>
 <b>Greenhouse Gas footprint Carbon footprint</b>	<ul style="list-style-type: none"> <li>• The amount of greenhouse gases released into the atmosphere by an activity, product or organisation.</li> </ul>	<ul style="list-style-type: none"> <li>• A direct measure of an organisation’s contribution to global warming.</li> </ul>
 <b>ESG</b>	<ul style="list-style-type: none"> <li>• Environmental, Social, Governance. A set of criteria that relate to non-financial performance indicators that can be used to better understand material risks and opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Increasingly important to prospective investors/funders and other stakeholders as an accepted indicator of the strength of the business.</li> </ul>

		Network Tasman ESG:		
		Considerations	Potential interactions/impacts	
<b>E</b>	Environmental	<ul style="list-style-type: none"> <li>How Network Tasman impacts the environments it interacts with as well as how a changing environment may impact business operations</li> </ul>	<ul style="list-style-type: none"> <li>Water use &amp; treatment</li> <li>Waste management</li> <li>Carbon emissions &amp; offsets</li> <li>Energy use</li> <li>Land use</li> </ul>	<ul style="list-style-type: none"> <li>Use of natural resources</li> <li>Ecosystems &amp; biodiversity</li> <li>Regulatory readiness</li> <li>Climate change</li> </ul>
<b>S</b>	Social	<ul style="list-style-type: none"> <li>How Network Tasman impacts the communities and people it interacts with</li> </ul>	<ul style="list-style-type: none"> <li>Working Conditions</li> <li>Employee well-being</li> <li>Diversity</li> <li>Public safety</li> <li>Community relationships</li> </ul>	<ul style="list-style-type: none"> <li>Cultural considerations</li> <li>Health &amp; Safety</li> <li>Service access</li> <li>Customer satisfaction</li> <li>Data privacy</li> </ul>
<b>G</b>	Governance	<ul style="list-style-type: none"> <li>Network Tasman's governance structure, processes and policies as they relate to long term business sustainability and integrity</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with standards/regulations</li> <li>Transparency</li> <li>Whistleblowing</li> <li>Executive Remuneration</li> </ul>	<ul style="list-style-type: none"> <li>Audit Committee &amp; Board structure</li> <li>Bribery</li> <li>Lobbying/political</li> <li>Risk management processes</li> </ul>

### Sustainability & Environment – Key Initiatives

Initiative	Action	Outcome	Target
<b>Carbon Footprint</b>	Set carbon emissions reduction targets for NTL's Scope 1. Assess steps to reduce/mitigate our carbon footprint	Set Carbon measures to reduce/mitigate by 5%	Mar 24
ESG Reporting	Establish a set of criteria that relates to non-financial performance indicators that can be used to better understand material risks and opportunities in line with our ESG considerations	With the finalisation of the reporting standards, complete establishment of ESG reporting framework	Nov 23
<b>Climate Change</b>	NTL has reviewed assets for the impact of climate change on assets identified in the TDC & NCC climate change impact mapping	Climate change impact assessment and actions established to mitigate	On-going
Decision Making	Build on our work to understand our whole-of-life resource impacts and include these understandings in our decision-making processes	Develop: <ul style="list-style-type: none"> <li>Key sustainability measures for our assets and processes</li> <li>Record and track these measures against our assets and processes</li> </ul>	Nov 23
<b>SF<sub>6</sub> Gas Losses</b>	Losses of SF <sub>6</sub> are a significant greenhouse gas risk. NTL will continue to research safe, reliable and cost-efficient alternatives to SF <sub>6</sub> as an interruption medium for our 66kV switchgear	Continue to replace the remaining SF <sub>6</sub> equipment on the network as identified in the company's AMP	On-going

## **Corporate Governance**

The Board of Directors of Network Tasman Limited and Group (the “Board”) are guided by a Board Charter which recognises the requirement to adopt best practices in relation to its corporate governance policies and procedures.

The Board is committed to a high standard of corporate governance and is guided by the “Code of Proper Practice for Directors” as recommended by the Institute of Directors in New Zealand.

### **Role of the Board of Directors**

The Board is appointed by the shareholders to supervise the management of the company. The Board establishes the company’s objectives, strategies for achieving objectives, the overall policy framework within which the Network Tasman’s business is conducted and monitors management’s performance. The Board has delegated the day-to-day management of the company to the chief executive.

The Board also ensures that appropriate procedures are in place to provide for effective internal control and that the business complies fully with legislative health and safety requirements.

### **Board operations and membership**

Network Tasman’s constitution allows for a maximum of eight directors of the company.

The Board currently comprises six directors: a non-executive Chair and five non-executive directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources.

Network Tasman’s constitution sets out policies and procedures for the operation of the Board, including the appointment and removal of directors.

The full board generally met 11 times during the year.

### **Associate Director Programme**

Network Tasman Limited and shareholder Network Tasman Trust operate an Associate Director Programme designed to offer emerging directors the opportunity to accelerate their boardroom experience for a period of twelve months with observer status on the board of Network Tasman.

The aim of the programme is to enhance the capability of senior leaders embarking on a governance career and to increase the availability of talented people for appointment to boards within the Nelson/Tasman region. It provides support to emerging directors with ongoing mentoring and opportunities for professional development and social networking within the governance environment.

### **Board Committees**

#### *Health and Safety Committee*

The Board has a Health and Safety Committee, comprising the full Board, to maintain an effective governance framework in accordance with relevant legislation and achieve the safety vision of “everyone safe, all of the time”. The committee is tasked with ensuring that health and safety are key considerations in every operational decision made within the company. Management and the Board are focused on ensuring a thorough health and safety management system (HSMS) oversight process is operating across all business units of the company. Activities include reviews with contractors and site visits. The committee generally meet four times during the year.

#### *Remuneration Subcommittee*

The Board has a Remuneration Subcommittee comprising three non-executive directors. The Remuneration Subcommittee is responsible for assisting the Board in overseeing the appointment, performance and remuneration of the chief executive and members of the executive team (including

succession planning) and reviewing the Remuneration Policy with the objective of being a good employer. The committee generally meet twice during the year.

#### *Audit and Risk Subcommittee*

The Board has an Audit and Risk Subcommittee comprising two non-executive directors. The Audit and Risk Subcommittee is responsible for overseeing the financial, accounting and internal and external audit activities of the company, including reviewing the adequacy and effectiveness of internal controls and monitoring of corporate risk assessment, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations on financial and accounting policies. The committee generally meet three times during the year.

Specific areas overseen by the Audit and Risk Subcommittee include the following:

#### Internal Audit

- The Board maintained an internal audit programme during 2022/23, utilising an experienced independent internal auditor. Four audits were completed during the year.

#### Treasury Policy

- Exposure to interest rate risk is managed in accordance with the company's treasury policy that sets limits of management authority and levels of exposure to banking institutions.

#### Risk Management

- The Board has overall responsibility for the company's risk management and internal control systems. The Board has established policies and procedures that are designed to provide effective internal control. Annual budgets, asset management plans, business plans and longer-term strategic plans are prepared and agreed upon by the Board, as well as a delegated authority policy. Financial statements and operational reports are prepared on a monthly basis and reviewed by the board throughout the year to monitor performance against budget targets and objectives.

In addition, the Board monitors the risk management framework and reviews ways to enhance existing risk management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff and the implementation, where considered necessary and effective, and considers the recommendations made by the internal and external auditors. Robust risk management and insurance programmes are in place and to facilitate restoration capability to deal with a natural disaster affecting our network.

## Appendix 1 – Summary Financial Statements

### Statement of Comprehensive Income

\$'000	Forecast FY23	Target FY24	Target FY25	Target FY26
Revenue	48,338	49,887	52,412	53,604
EBITDA	19,915	19,648	20,976	21,217
Operating Surplus before tax	10,534	9,141	8,935	8,418
Taxation	3,898	2,921	2,747	2,878
Operating Surplus after tax	6,636	6,220	6,188	5,540
Customer Contribution	3,439	3,158	2,619	2,692
Operating Surplus (Deficit) after Customer Contributions	10,075	9,378	8,807	8,232

### Statement of Financial Position

\$'000	Forecast FY23	Target FY24	Target FY25	Target FY26
Current assets	16,243	9,975	9,480	9,056
Non-current assets	274,936	299,052	319,806	330,322
<b>TOTAL ASSETS</b>	<b>291,179</b>	<b>309,027</b>	<b>329,286</b>	<b>339,378</b>
Current liabilities	15,632	17,502	17,653	17,913
Non-current liabilities	34,538	43,138	56,438	60,538
<b>TOTAL LIABILITIES</b>	<b>50,170</b>	<b>60,640</b>	<b>74,091</b>	<b>78,451</b>
Equity	241,009	248,387	255,195	260,927
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>291,179</b>	<b>309,027</b>	<b>329,286</b>	<b>339,378</b>

### Statement of Cashflows

\$'000	Forecast FY23	Target FY24	Target FY25	Target FY26
Cash from customers	51,428	58,079	60,644	61,957
Cash disbursed	33,910	41,463	44,021	44,436
Net cashfrom operations	17,518	16,616	16,623	17,521
Cash invested in fixed assets	(16,225)	(28,684)	(27,318)	(18,445)
Cash from financing	-	8,000	12,700	3,500
Dividend paid	(1,800)	(2,000)	(2,000)	(2,500)
Net increase (decrease) in cash held	(507)	(6,068)	5	76
Opening cash	7,298	6,791	723	728
Closing cash	6,791	723	728	804

## Appendix 2 - Capital Expenditure

The company is forecasting the following capital expenditure commitments on the distribution network for the 10-year period 2023/24 – 2032/33:

Year-end	Capital Expenditure (\$Million)	
2023/24	23.8	
2024/25	19.4	
2025/26	16.2	
2026/27	15.7	
2027/28	13.5	
2028/29	14.2	
2029/30	15.0	
2030/31	17.7	
2031/32	26.1	
2032/33	15.0	
<b>Total</b>	<b>176.6</b>	
<b>Average per annum</b>	<b>17.7</b>	

## Appendix 3 - Performance Measures

		FY20	FY21	FY22	FY23	FY24	FY25	FY26
		Actual	Actual	Actual	Forecast	Target	Target	Target
<b>Shareholder Returns</b>								
Dividend Paid	\$millions	2.0	1.6	1.8	1.8	2.0	2.0	2.5
Return on Equity	%	5.3	5.4	5.4	4.3	3.8	3.5	3.2
<b>Profitability / Efficiency</b>								
Cash Cost Per Consumer	\$	263	279	282	288	307	328	340
Operating Margin	%	42.9	46.3	44.8	41.9	40.0	40.7	40.3
Return on Invested Capital	%	4.7	6.0	5.8	4.4	3.8	3.6	3.4
<b>Leverage / Solvency</b>								
Shareholders' Funds to Total Assets	%	84	83	83	83	80	77	77
Debt to EBITDA	%	(1.4)	(18.1)	(32.3)	(34.1)	37.0	95.2	110.3
Gearing Ratio (Net)	%	(0.1)	(1.8)	(3.1)	(2.8)	2.9	7.8	9.0
Interest Cover	# of times	538	480	4,049	39,634	95	32	21



## Appendix 4 - Definitions

### **Financial:**

*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.

*Cash operating costs per customer* are defined as the regulatory network operating costs divided by the number of ICPs (customer connections).

### **Safety of Electricity Supply:**

*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*

SAIDI is a measure of the number of minutes that a consumer on the network can expect to be without supply each year.

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

*SAIFI – System Average Interruption Frequency Index*

SAIFI is a measure of the number of times each year that a consumer on the network can expect the supply to go off.

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

*CAIDI – Consumer Average Interruption Duration Index*

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

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

## Appendix 5 - Key Assumptions used in the Financial Forecasts

The key assumptions underlying the targets include:

<b>Strategy</b>	No material changes in the strategic direction of the company
<b>CPI</b>	CPI adjustment has been allowed for at 7%
<b>Interest Rates</b>	Money Market interest rate is budgeted to be 4% and Term Loans at 6.5%
<b>WACC</b>	FY20 targets are based on the current five-year WACC of 4.57% applying to 31 March 2025.
<b>Dividend</b>	Dividend to Network Tasman Trust \$2,000,000
<b>M&amp;O costs</b>	Maintenance & Operations costs are based on contract rates and cost escalation clauses applying in current contracts.
<b>Taxation</b>	Taxation expense includes the adjustment for deferred tax
<b>Line Revenue</b>	Line revenue based on DPP3 methodology and WACC
<b>Line Discount</b>	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 September 2023 (entitlement August 2023) and April 2024 (entitlement March 2024).
<b>Merger &amp; Acqn's</b>	No merger, acquisition or disposal activities provided for
<b>JVs</b>	The investments division includes the 50% share of profits or losses in Nelson Electricity and On Metering Ltd and shareholders' advances and investment in NEL, SmartCo and On Metering
<b>Transpower</b>	Continuation of Network Tasman contracting directly with Transpower for transmission services
<b>Shareholder</b>	Continuation of the joint stakeholder communication strategy agreed with the Network Tasman Trust
<b>Contributions</b>	Continuation of current customer contribution policies
<b>Undergrounding</b>	Undergrounding policy based on the company's current policy
<b>NEL</b>	No change to the current ownership structure or management services for Nelson Electricity Limited.
<b>Capital Structure</b>	No significant return of capital to shareholders except for a fully imputed dividend (subject to cash flow and capital expenditure requirements)
<b>Properties</b>	Retention of ownership of investment properties
<b>Fibre</b>	Fibre revenue budget based on a continuation of the current business structure

## Appendix 6 – Network Tasman Ownership Structure

