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CENTRALINES STATEMENT OF CORPORATE INTENT 19/20

### **DIRECTORY**

### **BOARD OF DIRECTORS**

Jon Nichols	Chair
Wendie Harvey	Director
Ian Walker	Director
Derek Walker	Director
Fenton Wilson	Director

### **SENIOR MANAGEMENT**

Ken Sutherland	Chief Executive
Len Gould	General Manager – Commercial
Kevin Corkery	Operations Manager
Brent Muggeridge	Company Accountant

### **CHB CONSUMERS POWER TRUST TRUSTEES**

Alistair Setter	Chair
Catherine Avery (Catie)	The CHB Mayoral Representative
George Williams	CHBDC Appointee
Richard Dakins	Silver Fern Farms Appointee
Marcus Peacock	Elected Trustee
Kate Taylor	Elected Trustee
Karen Middelberg	Elected Trustee

### **ADDRESS**

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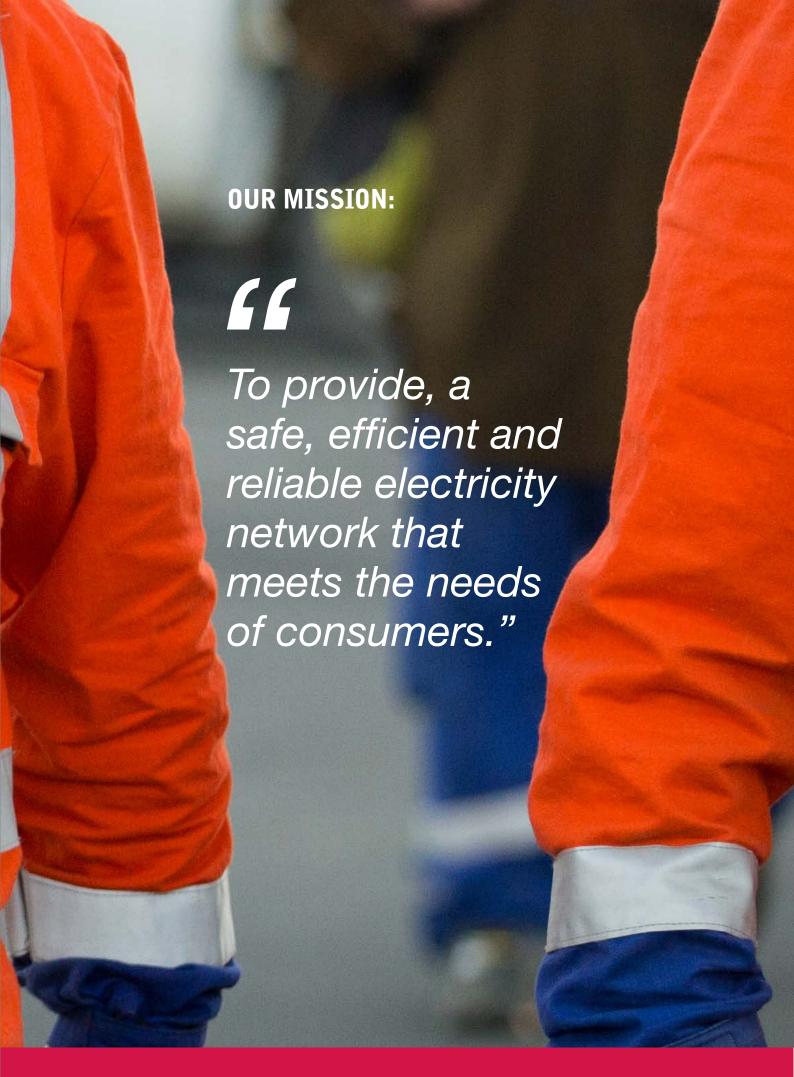
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www.centralines.co.nz

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### **INTRODUCTION**

Centralines enables its community to prosper by distributing electricity to homes and businesses in Central Hawke's Bay. Instrumental to the region's social and economic wellbeing, Centralines' approach is to ensure one of the country's most sparsely populated regions has access to affordable and reliable electricity.

There is a natural expectation that Centralines continues to evolve to meet its stakeholders' changing needs, while at the same time embracing major changes in the strategic environment. This includes climate concerns, combined with advances in technology which look to change the way energy is produced, stored and used.

The energy value chain is in the early stages of a significant transformation – from a system that was 'centrally planned' to an 'internet of energy' – which sees consumers in control. With policy and regulation response, it will shape the scope of our regulated business while opening opportunities for new services and business models.

By remaining close to its customers, Centralines will continue to build insights and understanding of their changing needs. At the same time, it is crucial that Centralines engages the diverse talents of its people and the wider community to harness new ideas.

Centralines continues to play an important role in supporting the social and economic development of the Central Hawke's Bay community through the provision of career opportunities to grow its diverse and inclusive team; while simultaneously ensuring – through training and development – that its people are equipped with the skills to face the challenges and opportunities that a new energy future will bring.

A realistic view of the future needs to be developed to determine where – and in what role(s) – Centralines is going to play. Incremental changes in what Centralines does and how it invests will form part of this journey, which is not without risk.

This future will ultimately see Centralines continue to provide a valued service for its customers.

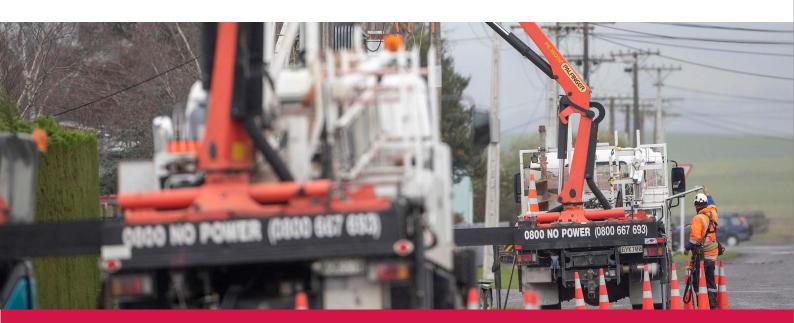
### 1 PURPOSE

This Statement of Corporate Intent (SCI) is submitted to the CHB Consumers Power Trust (the Shareholder) by the Board of Directors of Centralines Limited (the Company). It sets out the Board's overall intentions and objectives for the Company for the financial year ending 31 March 2020, and the two succeeding financial years.

The SCI is submitted in accordance with the provisions of Sections 39 and 40 of the Energy Companies Act 1992.

Centralines is a consumer owned company. Eight million shares have been issued and are owned by the CHB Consumers Power Trust, the beneficiaries of which are the consumers connected to Centralines' network in Central Hawke's Bay (the Company's distribution assets as defined in the Trust Deed).

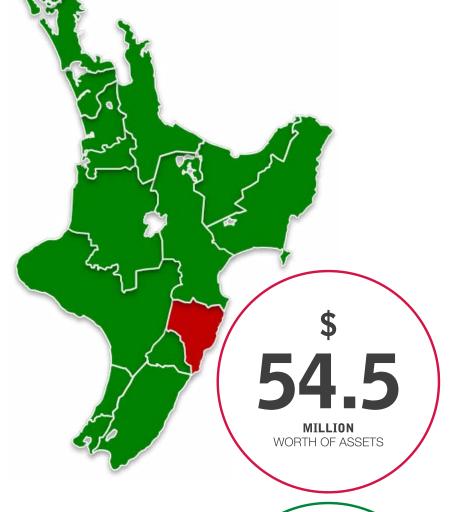
This statement represents the Directors' intent to ensure the Company will operate as a successful business.



### **2 ABOUT CENTRALINES**

Centralines is one of 29 distribution companies in New Zealand. It distributes electricity to customers across the Central Hawke's Bay region. The Centralines' network has over \$54.5 million worth of assets, is 1,700km in length, and supplies around 8,500 connection points. Centralines is owned by the CHB Consumers Power Trust on behalf of power consumers in Central Hawke's Bay.

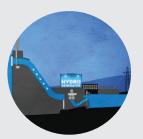
Centralines is responsible for distributing electricity from Transpower's national grid to electricity consumers. Electricity supply is provided to Centralines predominantly at 33kV from Transpower's grid exit points and is connected to Centralines' sub-transmission network to zone substations. At zone substations, the voltage is converted to 11kV for distribution. Distribution transformers throughout our network then reduce the voltage to 400V for consumer use.



8.5K
CONNECTION POINTS

Centralines is a consumer-owned and operated electricity lines business. The Centralines network has over \$54.5 million worth of assets, is 1,700km in length, and supplies around 8,500 connection points.

### THE ELECTRICITY MARKET



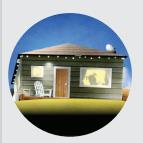
**GENERATORS** 



**TRANSMISSION** 



CENTRALINES/
DISTRIBUTION



CONSUMER



RETAILER

The Retailer is responsible for billing consumers



### 3 MISSION AND VALUES

### **CENTRALINES MISSION IS:**

"To provide, a safe, efficient and reliable electricity network that meets the needs of consumers."

### **VALUES:**

Centralines' staff and management team contribute their ideas and vision to create the positive energy that's behind the Company's processes, procedures and policies. We want our people to feel empowered and confident in their abilities to do their job well and go home safe to their families each day. Our 'acting out' of our company values has helped in the achievement of these goals.

Here's what's important to everyone who works at Centralines:

### **SAFETY - IS PART OF OUR LIVES**

- we think before we act
- we have the right mindset and attitude
- we constantly review safety practice, and
- we look out for ourselves, each other and the community.

### **TEAM WORK - WE ARE ONE TEAM**

- we share and listen
- we show respect to all other team members
- we have a well understood common goal, and
- we regularly plan, review and celebrate together.

### **INTEGRITY - WE ARE HONEST, ALWAYS**

- we have pride in ourselves and our work
- we are reliable and do what we say we will
- we take responsibility for our actions, and
- we speak directly and solve issues openly.

### **OPENNESS - WE ARE TRANSPARENT**

- we actively communicate
- we give regular feedback
- we receive feedback openly
- we confidently express our opinions and share our knowledge, and
- we keep each other and our community well informed.

### **PASSION - IN EVERYTHING WE DO**

- we have the drive for success in what we do and demonstrate this at work and in the community
- we develop ourselves
- we constantly review and improve, and
- we are as efficient and effective as we can be.



### 4 PRINCIPAL OBJECTIVES

The Company - through a focus on service and recognition of the value of skilled staff - will strive to achieve the following objectives:

### Safety

Centralines' objective is to achieve an injury-free workplace by creating a culture where each person truly believes that "safety first" is a core value, and that working safely is part of all employees' everyday activities.

### Financial performance

Centralines shall deliver sustained financial performance through sound investment policy, efficient and cost effective services, and strategic growth.

### People

Centralines is committed to building an organisation that people want to be a part of. We aim to develop a performance driven culture that is guided by company values. The business must ensure that it has the appropriate number of skilled and engaged employees to deliver operational success.

### **Network performance**

Centralines aims to sustain and improve the level of network performance to our customers while improving emergency response to electricity outages through enhanced network security and safety.

### Works delivery

Centralines shall deliver its Asset Management Plan commitments to ensure the continued operation of the network meets stakeholder requirements.

### Growth

Centralines is committed to exploring growth opportunities which may be incremental in nature, or greenfields, and could take a number of business structures. Opportunities will be evaluated against Centralines' investment policy and higher risk appetite related to strategic growth opportunities. Diversification of income, increased distributions and enhanced utilisation of balance sheet strength are important.

### **Customer service**

Centralines aims to not only meet, but exceed customer expectations through the provision of an economic electricity network service to consumers, priced at sustainable levels and characterised by delivery that is on time and on budget. A customer driven approach is coupled with strong network performance to deliver high levels of customer satisfaction.

### Community

Centralines aims to be a good corporate citizen by engaging with our customers and community to understand their needs and expectations, and responding appropriately.

### Compliance

Through a culture of compliance, Centralines will deliver against its legal, corporate governance and community obligations.

### Risk

Centralines ensures the implications of uncertainty on the business are managed through evaluating all material, strategic, operational and financial decisions against the Board approved Risk Appetite Statement. In addition, all staff at Centralines are responsible for managing day-to-day risks through a structured risk management programme.



# 5 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

Section 36 of the Energy Company's Act 1992 requires Centralines, as its principle objective, to operate as a successful business.

To achieve this, the Company is structured to provide the following services:

### **Network services**

This includes the maintenance and operation of the network assets to allow retailers to convey electricity from the national power grid to an end customer's premises. The Company welcomes and encourages competition across its network subject to certain credit criteria for retailers.

### **Electrical contracting**

This includes the undertaking of a wide range of contracting work for customers within the Centralines' area and for other electricity distribution companies.

The Company will undertake these activities in a manner consistent with:

- the safe and effective utilisation of the Company's physical assets and human resources
- the prudent management of the Company's business risks, and
- in accordance with regulatory requirements.

All activities will be carried out with the objectives of protecting and growing shareholder value.

In support of the principle objectives, the Company will:

- Ensure a positive health and safety culture which encourages compliance with the Health and Safety at Work Act 2015.
- Understand and meet our customers' existing needs in terms of network reliability and security of supply, and meet our customers' future needs in terms of fit for purpose solutions which are also cost effective and timely.
- Explore growth opportunities consistent with the company's investment policy to:
  - expand the fibre optic network
  - develop regional infrastructure that can support economic growth, and
  - develop and/or invest in energy/efficiency related assets (that have a nexus to Central Hawke's Bay electricity consumers).
- Encourage and facilitate distributed generation opportunities in the Central Hawke's Bay where the business case is positive.
- Ensure electricity network services are maintained and priced at sustainable levels.
- Achieve efficient operating costs.
- Maintain active participation with other lines companies and wider industry stakeholders and participants.

### **6 PERFORMANCE TARGETS AND MEASURES**

The performance targets that we will use to measure our financial and service performance over the next three years (ending 31 March 2022).

	2017/2018 Actual	2018/2019 Actual	2019/ 2020	2020/ * 2021	2021/ <del>7</del> 2022
AFETY MEASURES					
umber of Lost Time Injuries	1	1	0	0	0
OTAL FINANCIAL RETURN MEASURES					
a) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts)	\$7.97M	\$8.17M	\$7.48M	\$6.30M	\$6.42M
(b) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed	10.40%	11.16%	10.49%	8.96%	9.05%
(c) Net Profit after tax (adjusted for discounts) as a percentage of Average Shareholders' Funds	6.99%	7.66%	6.62%	4.13%	4.23%
d) Network Operational Costs - per ICP Excluding Transmission Costs and Depreciation)	\$452	\$499	\$511	\$534	\$545
) Network Operational Costs - per kilometre of line xcluding Transmission Costs and Depreciation)	\$1,987	\$2,195	\$2,251	\$2,364	\$2,411
Total Planned Electricity Network Capital xpenditure	\$1.67M	\$4.04M	\$3.20M	\$2.76M	\$2.42M
g) Dividend (These figures include \$100,000 for the CHB Consumers Power Trust to cover the operating cost of the Trust)	\$8.1M	\$0.16M	\$2.1M	\$1.1M	\$1.2M
h) Discount - paid in that year	\$1.34M	\$1.39M	\$1.48M	\$1.43M	\$1.37M
ELIABILITY MEASURES					
AIDI represents the average number of minutes the astomer was without power in any one year	131.7	107.7	119.1	119.1	119.1
System Average Interruption Frequency Index SAIFI is the average number of supply interruptions					
hat a customer experiences in the period ncluding maintenance but excluding transmission Transpower)	2.23	2.06	3.52	3.52	3.52
lumber of major faults (33kV) which result in					
terruptions to supply, per 100 km of line per ear (as per the Electricity Distribution Information	2	2	2	2	2
Disclosures Determination 2012)					



# 7 COMMITMENT TO OUR SHAREHOLDER

### 7.1 RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

The ratio of consolidated shareholders' funds to total assets will be maintained for each year at not less than 60 percent.

"Consolidated shareholders' funds" means the total contributed capital, reserves and retained earnings at the end of the previous financial year.

"Total assets" means all the recorded tangible assets of the Company as shown in the Statement of Financial Position.

### **7.2 ACCOUNTING POLICIES**

Centralines accounting policies will comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and are consistent with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). The Company's financial statements will comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit oriented entities. They will also comply with International Financial Reporting Standards ("IFRS") and IFRIC interpretations. For the purposes of complying with NZ GAAP, the Company is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR and will apply disclosure concessions accordingly.

### 7.3 INFORMATION TO BE REPORTED TO SHAREHOLDER

In addition to information required by legislation, the Company will provide sufficient information to the Trust – and where applicable to other shareholders - to enable the shareholder to assess the value and performance of the Company. This includes the following information.

### Statement of Corporate Intent

Before the commencement of the financial year the Directors will deliver a draft Statement of Corporate Intent in accordance with Section 39 of the Energy Companies Act 1992 to the Shareholder. The Directors will make any modifications required, as under Sections 40 and 41 of that Act, and then deliver the SCI to the Shareholder.

### Interim report

Within two months after the end of the first half of the financial year of the Company the Directors will deliver to the Shareholder an unaudited report of the Company's operations during that half year. This report will include such details as are

necessary to permit an informed assessment of the Company's performance during the reporting period.

### Annual report

Within three months after the end of the financial year of the Company the Directors will deliver to the Shareholder in accordance with Section 44 of the Energy Companies Act 1992:

- Operations: A report on the operations of the Company during the financial year
- Financial Statements: Audited consolidated financial statements for that financial year in respect of the Company, and
- Auditors Report: The Auditors report on:
  - 5.2.1 those financial statements, and
  - 5.2.2 performance targets and other measures by which performance has been judged in relation to the objectives.

Every report will contain such information as is necessary to enable an informed assessment of the operations of the Company and including a comparison of the performance of the Company and its subsidiaries with any relevant SCI.

The Chairman will provide regular briefings to the Shareholder on all material matters and the Company will provide further information as the Shareholder may require in order to properly undertake its duties and to act as a diligent trustee shareholder.

### 7.4 DIVIDEND POLICY

The Company will distribute to the shareholder following the payment of a posted discount, by way of a dividend each financial year, funds surplus to the investment and operating requirements of the Company as determined by Directors, subject always to:

- the solvency provisions of the Companies Act 1993
- any banking or other funding covenants by which the Company is bound from time to time
- the forecast economic conditions in which the Company is expected to be operating, and
- the Company's efficient capital structure and future funding requirements.

The target dividend pay-out for the period is set out in section 6.

In measuring the Company's performance against the target dividend pay-out, the parties acknowledge that Directors shall seek to maintain a consistent dividend from year to year. Any significant variations in profitability, which may be due to one-off gains or losses in individual years, will be taken into consideration in order to minimise the volatility in dividend payout between years.

### 7.5 EXTRAORDINARY CAPITAL EXPENDITURE

Electricity network capital expenditure is commensurate with clause 3 and is not extraordinary by definition.

### 7.6 PROJECTIONS

The financial forecasts in the SCI for the period 1 April 2019 to 31 March 2022 have been prepared for the purposes of this document and may not be appropriate for other purposes. The actual results for any period are likely to vary from the information presented.

The Commerce Commission is resetting the regulated revenue allowance for Centralines for the five year period beginning 2020/21. At the time of preparing this SCI, Centralines has made its best efforts to estimate the impact of the regulatory reset on revenues. However, actual revenue allowances will depend on prevailing financial market conditions and assumptions that the Commerce Commission makes at the end of November, 2019. Accordingly, future revenue projections may vary from the stated SCI targets.

### 7.7 DISCOUNT POLICY

The Company's policy is to pay to the consumers each financial year a discount based on their previous 12 months electricity usage. This discount is to reward customers for their loyalty, and levels of electricity usage. The level of the discount to be paid to consumers will be determined by Directors, subject to:

- the solvency provisions of the Companies Act 1993
- any banking or other funding covenants by which the Company is bound from time to time
- the forecast economic conditions in which the Company is expected to be operating, and
- the Company's efficient capital structure and future funding requirements.

The Company will post the discount to be paid from line revenue in its published Distribution Delivery Prices for that year. The discount will be calculated using 12 months consumption data from 1 April and will be paid to consumers via their retailer within 6 months of the end of the financial year.

### 7.8 ACQUISITION PROCEDURE

No acquisition of shares or assets in another company or organisation shall be undertaken by the Company without prior shareholder approval where the value exceeds five percent of the share capital of the company (other than in the course of a re-organisation, reconstruction, merger etc as defined in Clause 9.9 of the Trust Deed).

### 7.9 DISPOSAL OF ASSETS

No assets will be disposed of other than in the normal course of business without consultation with the Shareholder. Before any assets are transferred to a subsidiary company the Directors will consult with the Shareholder.

### 7.10 BORROWINGS FOR CORE

In accordance with the long term strategic plan, the Company has committed to a capital expenditure programme. However, borrowings will not be required for core network activities within the period of forecast of this statement.

### 7.11 INVESTMENTS

The Company will make prudent investments in accordance with the company's Risk Appetite having taken provisional advice and in accordance with the Company's Investment Policy. The Company shall keep the Trust informed of any potential or planned investments.

### 7.12 RESERVES FOR INVESTMENT

The company will keep the Trust updated on any reserves held for capital projects or major investments.

### 7.13 EXTRAORDINARY DIVIDENDS

An extraordinary dividend will be discussed with the Trust, if the reserve funds referred to in Clause 7.12, are not required by Centralines in the foreseeable future.

### 7.14 COMMUNITY CONTRIBUTION

The Company's policy is to sponsor community activities with an annual target of at least \$150,000. The Company shall provide a list of organisations to which they provide sponsorship as part of the Board's quarterly update to the Trust.

### 7.15 RELATIONSHIP WITH THE SHAREHOLDER

The Company will make available facilities and resources for the operation of the CHB Consumers Power Trust.

The Company will supply to the Trust within a reasonable time of receiving a written request the name and address of each consumer as defined by the Trust Deed.

The Company will meet with the Trust at not more than six monthly intervals to discuss matters of mutual interest.

Jon Nichols - Chair

**Date: 25th June 2019** 



# OUR PEOPLE | OUR POWER

### **CENTRALINES LIMITED**

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