Eastland Network

Statement of Corporate Intent

For the Year Ended 31 March 2022

Contents

1 Introduction 2

2 Objectives 2

3 Nature and Scope of Activities 2

4 Performance Targets 3

4.1.1 Threshold Price Compliance – Allowable Notional Distribution Revenue (ANR) 3

4.1.2 Threshold Quality Compliance 4

4.1.3 PSMS – Public Safety Management System 5

5 Estimated Shareholder distributions 5

6 Information to be provided to shareholders during the course of the financial year 5

7 Accounting Policies 6

7.1 Revenue 6

7.2 Cashflows 6

7.3 Property, Plant and Equipment 6

7.4 Operating leases 9

7.4.1 as lessee 9

7.4.2 as lessor 9

7.5 Leasehold improvements 10

7.6 Finance costs 10

8 Procedures for purchases of shares in other entities 10

9 Intended transactions with related parties 10

1 Introduction

This Statement of Corporate intent has been prepared in accordance with the requirements of the Energy Companies Act 1992. The purpose of this document is to provide shareholders with an overall view of the intentions of Eastland Network Limited for the year beginning 1 April 2021 and the two following financial years.

2 Objectives

The objectives for Eastland Network are:

Commercial	Maintain regulatory compliance Maintain & upgrade assets Maximise non-regulated income Grow and protect core business Commercialise emerging energy technology Strengthen the region's energy resilience
Regional Wellbeing	Ensure quality of supply Champion new energy technology Reduce regional energy poverty through pricing education and energy advice
Environment & Sustainability	Investigate and promote low-emission energy options Support renewable energy Uphold our staff values
Our People	Look out for the mental and physical health and safety of our people Be the employer of choice, locally and nationally Be a partner of choice even when we are a monopoly
Stakeholder Focus	Meet our stakeholder needs Measure and improve stakeholder satisfaction Increase communication with stakeholders Improve outage communications Educate community of electricity pricing
Community Engagement	Educate our region on using energy more efficiently and economically Engage and understand how our region will adopt emerging technology Inform our community about industry disruption

3 Nature and Scope of Activities

Eastland Network owns and manages the Electricity distribution network within the Gisborne and Wairoa regions.

Eastland Network's aim is to transport electricity reliably and efficiently between the transmission grid exit point at Tuai and consumers and generators large and small throughout the Tairawhiti/Gisborne and Wairoa regions.

4 Performance Targets

Eastland Network Sector Performance Targets					
	Actual	Actual	Budget	Forecast	Forecast
$m	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenue	40	31	32	32	33
EBIT	16	7.5	7.0	6.8	7.2
EBIT/Revenue	38%	24%	22%	21%	22%
EBITDA	19	17	13	13	14
Funding Cost	3.7	3.4	1.6	1.5	1.5
Funding/Revenue	9.2%	11%	5.0%	4.8%	4.6%
NPBT	12	4.1	5.4	5.2	5.7
NPBT/Revenue	29%	13%	17%	16%	17%
NPAT	8.5	3.0	3.9	3.8	4.1
NPAT/Revenue	21%	12%	19%	18%	20%
Total Assets	174	180	179	180	182
Shareholders' Funds	68	74	76	80	84
Shareholders' Funds / Total Assets	39%	41%	43%	45%	46%
Return on Funds	9.4%	4.4%	9.2%	8.4%	8.6%
Return on Investment	7.3%	4.3%	2.9%	2.7%	2.9%
Return on Equity	13%	4.3%	5.2%	4.8%	5.0%

4.1.1 Price Compliance – Forecast Allowable Revenue

Distribution revenue from prices has to be set below Forecast Allowable Revenue. Forecast Allowable Revenue is then recalculated to Actual Allowable Revenue using actual pass-through and recoverable costs and other regulated balances, e.g. wash-up balances, quality incentive, capex wash-up.

Below are indicative forecast allowable revenues for current FY and the two following financial years:

Forecast Allowable Revenue $000	FY21	FY22	FY23	FY24
Actual Net Allowable Revenue	24,028	24,497	24,993	25,493
Forecast Pass-through and Recoverable Cost + Wash up	4,769	6,148	5,541	6,196
Forecast Allowable Revenue	28,797	30,645	30,534	31,689

For the 5 years from 1 April 2020 to 31 March 2025 allowable revenues have been reset under DPP3 (Default price-quality path).

Variance between Actual revenue and Actual Allowable Revenue gives rise to a wash-up amount in future periods.

4.1.2 Quality Compliance

Network quality performance relating to planned and unplanned electricity outages is regulated under DDP3 using SAIDI and SAIFI measures.

4.1.2.1 SAIDI – System Average Interruption Duration Index

This represents the number of minutes the average consumer is expected to be without power during the reporting period.

From 1 April 2020 Planned and Unplanned SAIDI have separate Limits. These are as follows:

SAIDI - Planned	FY21	FY22	FY23	FY24	FY25
Limit/Cap			1290.68		
Target	86.05	86.05	86.05	86.05	86.05

SAIDI - Unplanned	FY21	FY22	FY23	FY24	FY25
Limit/Cap	219.46	219.46	219.46	219.46	219.46
Target	173.85	173.85	173.85	173.85	173.85

4.1.2.2 SAIFI – System Average Interruption Frequency Index

This represents the number of interruptions expected for the average consumer during the reporting period.

From 1 April 2020, SAIFI has separate limits for Planned and Unplanned outages. These limits are not included in the Quality Incentive scheme and therefore there are no targets for SAIFI.

SAIFI - Planned	FY21	FY22	FY23	FY24	FY25
Limit/Cap			7.4745		

SAIFI - Unplanned	FY21	FY22	FY23	FY24	FY25
Limit/Cap	3.1525	3.1525	3.1525	3.1525	3.1525

4.1.3 PSMS – Public Safety Management System

Contributory to maintaining required PSMS accreditation for the Network and Generation businesses and achieving Eastland Group safety policy standards of safety performance, the Networks sector has set the following targets for every year of the planning period and beyond:

Event / Incident Description	Target
Serious Harm – Employees, Contractors / Lost Time	0
Serious Harm – Public	0
Serious Damage – Company Property & Equipment	0
Serious Damage – Public Property	0
Near Miss Harm – Employees, Contractors / Lost Time	0
Near Miss Harm – Public	0
Near Miss Damage – Company Property & Equipment	0
Near Miss Damage – Public Property & Equipment (HV Power faults)	0

5 Estimated Shareholder distributions

Eastland Network has agreed that the following net dividends will be paid in two tranches to Eastland Group. As a result of WACC change under DPP3, Eastland Network will not pay any dividends until 2026.

Total Dividend	FY20	FY21	FY22	FY23	FY24
$m	4.455	0	0	0	0

6 Information to be provided to shareholders during the course of the financial year

Eastland Network Limited is 100% owned by Eastland Group Limited. As it is in private ownership Eastland Network makes available to its shareholder any information that would normally be available to a private shareholder. In addition, Eastland Group Limited provides a range of shared services for Eastland Network so have access to all financial and other information as if Eastland Group and Eastland Network were one and the same company.

7 Accounting Policies

7.1 Revenue

Revenue is recognised when all performance obligations have been satisfied by transfer of goods or services to the customer and for consideration that is probable to be collected.

i. *Regulated electricity distribution*

Revenue from electricity distributed and generated is recognised in the Statement of Financial Performance when the electricity has been distributed or sold to customers.

ii. *Rental income*

Rental income is recognised in the Statement of Financial Performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

iii. *Customer contributions*

The following terms are used in the Statement of Cash Flows:

7.2 Cashflows

Cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. All bank transactions are transacted through the parent account and reflected in the current account of this entity.

Operating activities are the principal revenue producing activities of the Company and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not including cash equivalents.

Financing activities that result in change in the size and composition of the contributed equity and financing of the entity.

GST is combined with applicable transactions and borrowings repaid and increased are netted.

7.3 Property, Plant and Equipment

Land and buildings and electricity distribution equipment are subsequently stated at revalued amounts, less any subsequent accumulated depreciation and impairment losses. Land and buildings and electricity distribution equipment are revalued with sufficient regularity to ensure that the carrying amount of these items does not significantly differ from that which would be determined using fair value at the date of the financial statements. The Directors review the assumptions annually to ensure that fair value is being stated.

Property, plant and equipment is revalued on a cyclical basis. Valuations are performed by registered valuers. For electricity distribution assets, revaluations are carried out on a cyclical basis not exceeding five years, by independent valuers.

Any movement on revaluation is reflected through equity reserves for that class of asset unless there is insufficient reserve in which case that would flow through to the Statement of Financial Performance.

All other plant and equipment are valued at historical cost.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in 'other income' or 'other administrative expenses', depending on whether a gain or a loss respectively. When revalued assets are sold, the amounts included in the equity reserve are transferred to retained earnings and recognised through other comprehensive income.

Classification of expenditure in relation to property, plant and equipment

On initial recognition of items of property, plant and equipment, judgments must be made about whether costs incurred relate to bringing the items to working condition for their intended use, and therefore are appropriate for capitalisation as part of the cost of the item, or whether they should be expensed as incurred. As required by NZIAS 16, Property, Plant and Equipment, management must exercise their judgment to assess the amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of items of property, plant and equipment. For example, employee costs arising directly from such activities are capitalised within the initial cost of property, plant and equipment. Thereafter, judgment is also required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

Valuation and impairment of property, plant and equipment

Management must also consider whether any indicators of impairment have occurred which might require impairment testing of the current carrying values of property, plant and equipment. Assessing whether individual assets or a grouping of related assets (which generate cash flows co-dependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate (Weighted average cost of capital – WACC) for discounting future cash flows. The standard assumptions across all valuations are inflation of 2% and a tax rate of 28%.

Revaluations – current year

*E*lectricity distribution

Electricity distribution assets and related land and buildings were last revalued on 30 November 2017 (fair value $146.8 million) by PricewaterhouseCoopers ("PwC") using the discounted cash flow method. The net book value at 31 March 2019 was $146.6 million (2018: $141.7 million)

The key assumptions of the valuation for the discounted cash flows over the period FY18-FY30 were:

- Forecast revenue and operating costs
- Default Price Quality Path WACC assumptions 6.19% - 7.28%
- Closing 2030 Regulatory Asset Base used as the terminal value and discounted back to valuation date
- Forecast capital projects

Revaluations – prior years

Land and buildings

Network operational land and buildings were valued on 31 March 2019 (total fair value of $7.4 million) by an independent valuer; AON New Zealand Limited. The method of valuation was the market approach. The methods used were direct comparison, income based, capitalisation and the capitalisation rate or yield. In addition to this valuation, land and buildings of $7.3 million net book value at 31 March 2019 were revalued as part of the distribution asset valuation in 2018.

Valuation technique	Fair value measurement sensitivity to significant unobservable input	Valuations affected by input change
Discounted cash flow model		
Plant outputs/Revenue	A slight increase in output or revenue would result in a material increase in the fair value, and vice versa.	Distribution
Market capitalisation		
Gross market rent	A slight increase in rent received would result in a material increase in the fair value, and vice versa.	Land & Buildings
Market capitalisation rate	A slight decrease in market capitalisation rate would result in a material increase in the fair value, and vice versa.	Land & Buildings
Direct sales comparison		
Rate per square metre	A slight increase in rate per square metre would result in a material increase in the fair value, and vice versa.	Land & Buildings

Depreciation

Depreciation is recognised in the Statement of Financial Performance on a straight-line basis considering the estimated useful life of each part of an item of property, plant and equipment and it's residual value. Land is not depreciated.

The estimated useful lives for significant classes of assets for the current and comparative periods are as follows:

Buildings	40-50 years
Electricity distribution equipment	10-70 years
Other plant and equipment:	
Plant and equipment	3-20 years
Motor vehicles	5-10 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business,use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in the Statement of Financial Performance within administrative expenses or other income and disclosed separately in the financial statements.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the use of a property changes from owner-occupied to investment property, the property is revalued to fair value and reclassified as investment property. Any gain arising on revaluation is recognised directly in equity. Any loss is recognised immediately in the Statement of Financial Performance.

7.4 Leases

7.4.1 as lessee

Lease liabilities are measured at the present value of remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 April 2019. The weighted average rate is 3.12%.

Right of use (ROU) assets are initially recognised at cost, comprising the initial amount of the lease liability less an unamortised lease incentives. ROU assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In considering the lease term, the Company applies judgment in determining whether it is reasonably certain that an extension or termination option will be exercised.

Where the asset is of low value or the term less than 12 months the lease payments are recognised in the statement of financial performance. Interest and depreciation are recognised in the statement of financial performance relating to the lease transactions.

7.4.2 as lessor

Assets leased under operating leases are included in investment property in the Statement of Financial Position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. For more details see the investment property policy.

7.5 Leasehold improvements

The cost of improvements to leasehold property are capitalised and depreciated over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

7.6 Finance costs

Finance expenses comprises of interest expense on related party borrowings and current account. This is allocated to the Company from Eastland Group Limited.

8 Procedures for purchases of shares in other entities

No acquisition by Eastland Network in another company or organisation shall be undertaken without prior Shareholder approval.

9 Intended transactions with related parties

There are no local authorities that are shareholders of Eastland Network. Material transactions (excluding transactions which constitute normal trading activities), between Eastland Network (or any member of the Eastland Group) and any related companies would be disclosed to our Shareholder in a timely manner.