
Aurora Energy Limited

Statement of Intent for the year ending 30 June 2017

TABLE OF CONTENTS

1	Introduction	3
2	Purpose of Statement of Intent	3
3	Objectives	3
4	Corporate Governance	4
5	Nature and Scope of Activities to be Undertaken	4
6	Financial Forecasts	4
7	Accounting Policies	5
8	Performance Targets and Other Measures	6
9	Information to be provided to the Shareholder in the Financial Reports	12
10	Dividend Policy	12
11	Acquisition/Divestment of Shares or Assets in any Company or Organisation	13
12	Compensation Sought	13
13	Commercial Value of Shareholder's investment.....	13
14	Other matters as agreed by the Shareholder and the Board	13
15	Transactions with Related Parties	14
16	Group Facility Use	14
17	Purpose for which the Company Established (optional).....	14
	Appendix 1: Dunedin City Council Vision: Dunedin is one of the World's Great Small Cities	15
	Appendix 2: Strategic Framework	16

1 INTRODUCTION

Aurora Energy Ltd ('the Company') is an Energy Company formed and registered in accordance with the Energy Companies Act 1992.

Energy Companies are required by law to produce a Statement of Intent (SOI). A SOI is an annual planning document.

The Company's Constitution states that the Directors shall deliver to the Shareholder a draft Statement of Intent in accordance with the requirements of the Local Government Act 1974 and the Energy Companies Act 1992, not later than one month after the commencement of each financial year of the Company.

2 PURPOSE OF STATEMENT OF INTENT

The SOI demonstrates the accountability to the Shareholder and the public by outlining the Company's activities and intentions for the next three financial years. It provides an opportunity for the Shareholder to influence the CCTO's direction by commenting on the draft version of the SOI. The SOI provides the basis for the accountability of the Directors to the Shareholder for the performance of the organisation.

The CCTO is required by law to report in its annual report on its performance targets set in the SOI.

3 OBJECTIVES

As defined in Section 59 of the Local Government Act (LGA), the principal objectives of a council-controlled organisation are to:

- a) achieve the objective of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer (as per clause 36 of Schedule 7 LGA); and
- c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- d) ... conduct its affairs in accordance with sound business practice."

4 CORPORATE GOVERNANCE

- a) Local Government Act 2002, Role of Directors

As defined in Section 58 of the LGA:

“(1) The role of a director of a council-controlled organisation is to assist the organisation to meet its objectives and any other requirements in its statement of intent.

(2) This section does not limit or affect the other duties that a director of a council-controlled organisation has.”

- b) In addition to the obligations of the LGA, the Company is also subject to the requirements of the Companies Act 1993, the Energy Companies Act 1992 and all other applicable legislative requirements that apply.

5 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

The principal activities of the Company are the ownership, development and strategic management of electricity distribution network assets in Dunedin and Central Otago. Our function is to transport electricity from the national grid to the end-use consumer, ensuring a safe, efficient, reliable and cost effective distribution network. Customers include large directly billed consumers, distributed generators and New Zealand’s electricity retailers.

Aurora’s total assets were \$413.9 million as at 30 June 2015, and the Company generated revenues of \$99.5 million for the year then ended.

Under the Commerce Commission’s Electricity Information Disclosure Requirements, Aurora is required to publish, at least bi-annually, a 10 year Asset Management Plan (AMP). Aurora’s AMP sets out the way in which it ensures that long-lived assets are managed sustainably.

Aurora invites comment on its AMP from electricity retailers (on behalf of their customers) and provides opportunity for public comments via its website.

6 FINANCIAL FORECASTS

- a) **The ratio of Shareholder’s Funds to Total Assets and the definition of those terms**

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Shareholder’s Funds to Total Assets	39.9%	37.6%	36.4%

The Company has adopted a target Shareholder’s Funds to Total Assets ratio (equity ratio) of 50%, but expects this ratio will fluctuate depending on a variety of circumstances including asset renewal and investment cycles. During periods of higher capital expenditure, the equity ratio will likely be lower and, at other times, may exceed the current target, although this is not likely to happen within the current three year forecasting period.

“Shareholder’s Funds” are represented by the paid up capital, reserves created by the revaluation of specific assets, and retained earnings.

“Total Assets” means the aggregate amount of all current and non-current assets.

b) Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the Shareholder

	Year ending 30/06/2017 \$000	Year ending 30/06/2018 \$000	Year ending 30/06/2019 \$000
Dividend/subvention distributions	7,500	7,500	7,500

c) Other financial forecasts

	Year ending 30/06/2017 \$000	Year ending 30/06/2018 \$000	Year ending 30/06/2019 \$000
EBITDA	38,936	40,644	42,089
Net profit after tax	8,073	8,117	7,701
Cash flow from operations	34,490	32,570	30,453
Capital expenditure	47,463	45,170	33,470
Term loans	200,900	228,450	244,000
Shareholder’s funds	186,191	186,808	187,009

The projections provided have been prepared using the most recent Company budget information and incorporate a number of assumptions about the future metrics of key business profitability drivers. In deriving these projections, advice and judgement has been applied to predict the future state of the commercial market environment in which the Company operates.

7 ACCOUNTING POLICIES

a) General Accounting Policies

The Company is a Tier-1 For-profit entity as defined by the External Reporting Board and reports in accordance with Tier 1 For-profit Accounting Standards. The Company’s accounting policies are based on NZ IFRS standards and interpretations, as recognised by Chartered Accountants Australia + New Zealand.

NZ IFRS standards and interpretations are subject to change and therefore the Company’s accounting policies are also subject to change during the period of the SOI.

b) Particular Accounting Policies

The particular accounting policies, which materially affect the measurement and reporting of financial performance and financial position, are consistent across the DCHL group and are fully listed in the Company’s annual report.

8 PERFORMANCE TARGETS AND OTHER MEASURES

Goals	Objectives	Performance Measures
Network Operations (Targets for Year Ending 31 March)		
To maximise the utilisation of electricity distribution assets while ensuring that service quality meets the needs of users	Consumer Connections (ICP Count)	Average number of customer connections per annum Targets: 2017 87,500 2018 88,000 2019 88,500
	Total energy volume received into the Network	Gigawatt hours per annum Targets: 2017 1,400 2018 1,400 2019 1,400
	Network efficiency: maintain high overall asset utilisation (load factor %)	Energy into network / peak kW hours Targets: 2017 ≥ 54% 2018 ≥ 54% 2019 ≥ 54%
	Network efficiency: minimise overall network losses (loss ratio %)	Energy into network less energy delivered / energy into network Targets: 2017 ≤ 6.0% 2018 ≤ 6.0% 2019 ≤ 6.0%

Goals	Objectives	Performance Measures
	Network efficiency: maintain high distribution transformer capacity utilisation (capacity utilisation %)	Peak network kW / installed distribution transformer capacity kVA Targets 2017 ≥ 30% 2018 ≥ 30% 2019 ≥ 30%
	Customer responsiveness: achievement of average network restoration times of <4 hours for urban customers and <6 hours for rural customers	Number of events outside urban and rural restoration targets that result in service payments to customers Targets 2017 60 2018 60 2019 60

Network Reliability (Targets for Year Ending 31 March)

To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets or exceeds the regulated quality thresholds determined by the Commerce Commission	SAIDI <i>System Average Interruption Duration Index</i> - Class B Interruptions (Planned)	Average minutes without electricity per consumer Targets: 2017 ≤ 14.10 minutes 2018 ≤ 14.10 minutes 2019 ≤ 14.10 minutes
	- Class C Interruptions (Unplanned)	Average minutes without electricity per consumer Targets: 2017 ≤ 76.31 minutes 2018 ≤ 76.31 minutes 2019 ≤ 76.31 minutes
	- Total	Average minutes without electricity per consumer Targets: 2017 ≤ 90.41 minutes 2018 ≤ 90.41 minutes 2019 ≤ 90.41 minutes

Goals	Objectives	Performance Measures
	SAIFI <i>System Average Interruption Frequency Index</i> - Class B Interruptions (Planned)	Average frequency of outages per consumer Targets: 2017 ≤ 0.09 2018 ≤ 0.09 2019 ≤ 0.09
	- Class C Interruptions (Unplanned)	Average frequency of outages per consumer Targets 2017 ≤ 1.40 2018 ≤ 1.40 2019 ≤ 1.40
	- Total	Targets 2017 ≤ 1.49 2018 ≤ 1.49 2019 ≤ 1.49

Community, Safety and Environment (Targets for Year Ending 31 March)

To ensure public safety	Zero serious harm events involving members of the public	Number of serious injury events (excluding car versus pole traffic accidents) involving members of the public Targets: 2017 0 2018 0 2019 0
To ensure contractor and staff safety	Reduce levels of recordable harm	Total Recordable Injury Frequency Rate (TRIFR) per 200,000 hours worked Targets: 2017 5.00 2018 4.75 2019 4.50

Goals	Objectives	Performance Measures
To make a positive contribution to our community	Maintain community support through sponsorships and community initiatives including Southern Lakes Festival of Colour, Aurora Energy Otago Science & Technology Fair and the street art programme on Aurora Energy assets	Sponsorship \$ per annum Targets: 2017 \$20,000 2018 \$20,000 2019 \$20,000
To promote the uptake of electric vehicles	Install public rapid charging station for electric vehicles in Dunedin; facilitate connection of third party providers' charging stations on the Aurora Energy network	Number of Aurora Energy and third party public charging facilities connected to Aurora Energy network Targets: 2017 1 2018 3 2019 5
To prevent adverse environmental impacts associated with network assets	Zero leaks of sulphur hexafluoride from network assets	Number of leaks of sulphur hexafluoride from network assets Targets: 2017 0 2018 0 2019 0
	Zero leaks of polychlorinated biphenyl from network assets	Number of leaks of polychlorinated biphenyl from network assets Targets: 2017 0 2018 0 2019 0

Goals	Objectives	Performance Measures
	Maintain full compliance with the Resource Management Act	Number of breaches of the Resource Management Act Targets: 2017 0 2018 0 2019 0
	Partner with Department of Conservation in the New Zealand Falcon Conservation project aimed at reducing the risk of bird electrocution	New Zealand Falcon safety – number of site installations Targets: 2017 +3 2018 +3 2019 +3
<i>Economic Development</i>		
To promote economic development	Provide essential electricity infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities	Refer to the safety and network reliability targets above

Goals	Objectives	Performance Measures
<i>The Shareholder</i>		
Engage with the Shareholder annually on opportunities for the Company to contribute, or assist where possible, with Council's community outcomes (as listed in the Annual Plan) and the Ministers' expectations	Consult with the Shareholder on matters to be included in the Company's Statement of Intent	Shareholder approval of the Company's Statement of Intent Targets: 2017 Approved 2018 Approved 2019 Approved
Bring to the attention of the Shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and/or the Ministers' expectations and those of the Company and seek the Shareholder's view on these	Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	Potential conflicts notified to the Shareholder Targets: 2017 No unnotified potential conflicts 2018 No unnotified potential conflicts 2019 No unnotified potential conflicts
Keep the Shareholder informed of all substantive matters	On a "no surprises" basis, advise the Shareholder promptly of any substantive matter that has the potential to impact negatively on the Shareholder and the Company with a particular focus on the media	Substantive matters reported to the Shareholder within 24 hours Targets: 2017 All substantive matters reported within 24 hours 2018 All substantive matters reported within 24 hours 2019 All substantive matters reported within 24 hours

9 INFORMATION TO BE PROVIDED TO THE SHAREHOLDER IN THE FINANCIAL REPORTS

	Monthly	Quarterly	Half Yearly	Annual
Statement of Financial Performance	X	X	X	X
Statement of Financial Position	X	X	X	X
Statement of Cash Flows	X	X	X	X
Statement of Service Performance against SOI targets		X		X
Statement of Movement in Equity			X	X
Notes to the Financial Statements			X	X
Directors' Report			X	X
Auditor's Report				X
Statement of Intent (Draft)				Prior to 1 December
Statement of Intent (Final)				Prior to 30 June

10 DIVIDEND POLICY

The Directors will apply the following principles when approving dividend amounts for payment:

- Borrowing to pay dividends should be avoided.
- Individual company policy may be based either on a proportion of net operating cash flow or after tax profit.
- Asset realisation amounts are to be considered for distribution where re-investment is not required.
- The Company has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of 50%. Budgeted dividend levels between DCHL and its subsidiaries will be agreed as part of the annual business planning cycle.
- As a guideline, annual dividend payments will be budgeted at up to 75% of after-tax profit, subject to the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.
- Dividends will be paid by 31 December and 30 June (based on forecast) with provision for a further final dividend based on actual year-end results.

11 ACQUISITION/DIVESTMENT OF SHARES OR ASSETS IN ANY COMPANY OR ORGANISATION

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million.

If the Directors intend that the Company or its subsidiaries should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$5 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority of \$5 million.

12 COMPENSATION SOUGHT

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities.

At present, the Company does not have any activities in respect of which its Board wishes to seek compensation from any local authority.

13 COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

14 OTHER MATTERS AS AGREED BY THE SHAREHOLDER AND THE BOARD

- a) The undertaking by the Company of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the Shareholder.
- b) The approval of the Shareholder is also required before the Company could dispose of any segment of its business or shares in a subsidiary or associated company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 11 above.
- c) The Company will consider entering into a Deed of Understanding between itself, the Dunedin City Council, Dunedin City Holdings Limited and members of the Group, imposing upon the Company certain restrictions, requirements and obligations to be set out in the Deed.

15 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder of Dunedin City Holdings Limited.

Dunedin City Holdings Limited is the sole Shareholder of Aurora Energy Limited, City Forests Limited, Delta Utility Service Limited, Dunedin City Treasury Limited, Dunedin Venues Management Limited and Dunedin Venues Limited.

Dunedin City Holdings Limited owns 72% of Taieri Gorge Railway and 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Related Party Transactions

Delta Utility Services Ltd	Operations and maintenance, asset management, construction and administration services
Dunedin City Council	Council rates for properties owned by the Company
Dunedin City Holdings Ltd	Functions appropriate between parent companies and subsidiaries
Dunedin City Treasury Ltd	Specific treasury functions

16 GROUP FACILITY USE

The Company will undertake to operate "group" purchasing of goods and services unless it is demonstrated conclusively to the Shareholder that the total combined cost to the Group and Dunedin City Council of such Group purchasing is greater than the total combined cost to the Group and Dunedin City Council of ceasing to purchase such goods and services as a Group including the cost to the Group and Dunedin City Council of ceasing any such group purchasing.

17 PURPOSE FOR WHICH THE COMPANY WAS ESTABLISHED

The Company has been established with the primary purpose of distributing electricity and, in turn, providing a commercial return to its Shareholder, Dunedin City Holdings Limited.

The Company recognises that it has social and environmental responsibilities to take account of in meeting its long-term commercial objectives.

The Company recognises Dunedin City Council's vision and strategic framework as summarised in Appendices 1 and 2.

APPENDIX 1: DUNEDIN CITY COUNCIL VISION: DUNEDIN IS ONE OF THE WORLD'S GREAT SMALL CITIES

The vision of the Dunedin City Council Long Term Plan is to make Dunedin an attractive place to work, live, study and visit.

This is achieved by the following Strategic Framework:



APPENDIX 2: STRATEGIC FRAMEWORK

Strategy	Priority	Explanation
Social Wellbeing Strategy (2013)	Connected people	Making people feel connected and involved in community and city affairs.
	Vibrant and cohesive communities	Building better communities both at a local/geographic level and communities of interest.
	Healthy and safe people	Promoting good health and ensuring people feel safe, and are safe.
	Standard of living	Promoting a good work/ life balance and full employment.
	Affordable and healthy homes	People are living in warm and healthy homes and affordable housing options are available to all.
Economic Development Strategy (2012)	Business vitality	Improving the ease of doing business. Growing the value of exports.
	Alliances for innovation	Improving linkages between industry and research. Increasing scale in innovative and tradable sectors.
	A hub for skills and talent	Increasing the retention of graduates. Building the skills base. Growing migrant numbers.
	Linkages beyond our borders	Increasing international investment. Establishing strategic projects with other cities.
	A compelling destination	Marketing Dunedin and exporting education uplift.
Te Ao Tūroa - Environment Strategy (early draft themes)	Connecting people with the environment	Dunedin's community enjoys and is connected with the natural environment.
	Guardianship of the environment	Dunedin's community actively works together to understand, enhance and celebrate the values of the natural environment.
	Protecting and enhancing the environment	Dunedin protects, restores and enhances its natural heritage, biodiversity, landscapes and ecosystems.
	Responding to environmental changes	Dunedin limits its impact on, and adapts to, environmental changes, including climate change.
	Sustainable resource use	Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly
Ara Toi – Arts & Culture Strategy	Identity pride	Building unity and community pride by celebrating the city's character, diversity and individuality through arts and culture.
	Access and inclusion	Enabling self-expression and sharing of ideas to connect diverse people.
	Creative economy	Capitalising on the economic growth of the arts and culture sector.
	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
Spatial Plan (2012)	A liveable city	A healthy and safe environment; quality air and water; a connected community; recreation, leisure & learning, opportunities; healthcare, and warm housing.
	An environmentally sustainable and resilient city	Resilient ecosystems and communities; actively responding to climate change; reducing dependence on non-renewable resources; seismic-strengthened heritage buildings.
	A memorable and distinctive city	Protecting significant landscapes; quality architecture and urban design; memorable and engaging public art; celebrating Tangata Whenua and European heritage; actively re-using built heritage.
	A city that enables a prosperous and diverse economy	Maintaining and growing our rural economy, industrial base and world class communications; attracting and retaining internationally-focused people; supporting and benefiting from the tertiary education sector.

Strategy	Priority	Explanation
	An accessible and connected city	An urban form that supports accessibility from a range of modes and sustainable transport choices; a safe and efficient road network; affordable and convenient public transport; it is safe and pleasant to walk and cycle.
	A vibrant and exciting city	A successful arts and culture scene, vibrant central city and local centres.
Parks & Recreation Strategy (early draft themes)	Well-connected open spaces	Managing green and open spaces to provide for social interaction and physical health and wellbeing.
	Accessible recreational facilities	Making recreational open spaces and facilities accessible to all.
	Collaborate to provide and protect	Working collaboratively to improve recreation and environmental outcomes.
Integrated Transport Strategy (2013)	Safety	Prioritising safety improvements according to risk.
	Travel choices	Prioritising investment and space to improve the provision of active modes and public transport.
	Connectivity of centres	Improving connections within and between centres and the central city for public transport and active modes.
	Freight	Efficiently and effectively moving freight.
	Resilient network	Integrating land use and transport to reduce demand for vehicle travel and increasing the resilience of the transport network.
Three Waters Strategy (2010)	Meeting water needs	Meeting the safe and quality water needs of the city for the next 50 years from existing water sources.
	Adaptable supply	Being able to adapt our water supply to a variety of future climate change and population scenarios.
	Environmental protection	Improving the quality of our discharges to minimise the impact on the environment.
	Maintaining service levels	Ensuring that, as a minimum, key service levels are maintained into the future.
	Kaitiakitaka	Adopting an integrated approach to management of the three waters and embrace the concept of kaitiakitaka.