

Statement of Intent

for the year ending 30 June 2020

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1 Introduction

Aurora Energy Ltd ('the Company') transports electricity from the national grid to the end-use consumer ensuring the safe, reliable and efficient supply of electricity to homes, farms and businesses throughout the Otago region.

The Company is an Energy Company and a wholly owned subsidiary of Dunedin City Holdings Ltd. Dunedin City Holdings Ltd is wholly owned by the Dunedin City Council.

2 Purpose of Statement of Intent

This Statement of Intent (SOI) sets out the Company's planned activities and financial forecasts for the next three years. It includes performance measures and targets which form the basis of the Company's organisational accountability, and which will be reported against in the Company's 2020 Annual Report.

The planned activities and performance measures take shareholder comments into consideration.

3 Objectives

The Company aims to support the future growth and wellbeing of communities in the Otago region by supplying electricity when and where it is needed - safely, reliably and efficiently.

In operating its business, the Company also has regard to the objectives of a Council Controlled Trading Organisation 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.

Health and Safety is integral to the way Aurora intends to conduct its business.

4 Nature and Scope of Activities

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 \$535.549 million as at 30 June 2018, and the Company generated revenues of \$106.501 million for the year then ended.

Since 1 July 2017, the Company has self-performed the asset management and network operations functions previously outsourced to Delta Utility Services Ltd.

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.

5 Corporate Governance Statement

In addition to the obligations of the Energy Companies Act 1992, the Company is also subject to the requirements of the Companies Act 1993 and is governed by directors in accordance with the law and best practice.

The role of a director of an Energy Company is defined in Section 37 of the Energy Companies Act 1992. This section states that all decisions relating to the operation of the Energy Company shall be made pursuant to the authority of the directorate of the Energy Company and its Statement of Intent. The Board is responsible for the preparation of the SOI which requires approval from the company's shareholder, Dunedin City Holdings Ltd.

The Board meets on a regular basis to direct and control the company's activities. Directors are appointed by the shareholder, Dunedin City Holdings Ltd.

The Board accepts that it is responsible for the overall control system operating within the company but recognises that no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems reflect the specific risks associated with the business of the company.

The shareholder reviews and approves the SOI and three year financial plan. Six-monthly and annual reports of financial and operating performance are provided to the shareholder.

6 Performance Targets and Other Measures

Goals	Objectives	Performance Measures
Health and Safety, Community and Environment		
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: 2020 0 2021 0 2022 0
To ensure contractor and staff safety	Reduce levels of recordable harm	Total Recordable Injury Frequency Rate (TRIFR) per 200,000 hours worked by Aurora and Contractors Targets: 2020 < 4.25 2021 < 4.00 2022 < 3.75
To make a positive contribution to our community	Maintain community support through sponsorships and community initiatives including the street art programme on Aurora Energy assets	Sponsorship \$ per annum Targets: 2020 \$20,000 2021 \$20,000 2022 \$20,000
To promote the uptake of electric vehicles	Encourage connection of public charging stations on the Aurora Energy network	Number of public charging stations connected by third parties to Aurora Energy network Targets: 2020 4 2021 5 2022 6

Goals	Objectives	Performance Measures
Health and Safety, Community and Environment – Continued		
	Maintain full compliance with the Resource Management Act	Number of breaches of the Resource Management Act Targets: 2020 0 2021 0 2022 0
	Maintain a conservation partnership with Department of Conservation to reduce the risk of New Zealand Falcon electrocution	New Zealand Falcon safety: FalconSafe requirements applied to all new installations in accordance with Network Design Standards.
Network Management (Targets for Year Ending 31 March)		
To manage electricity network risk and reliability for consumers, and to ensure regulated returns are consistent with the investments required	Prepare and submit a Customised Price Path application to the Commerce Commission by May 2020	Ensure business is in a position to engage and consult with stakeholders and submit a CPP Application in May 2020
To develop detailed plans for the implementation of a comprehensive asset management system	Investigate and document detailed plans for the implementation of process and capability improvements identified as necessary to enhance asset management practice	Plans incorporated into CPP Application by May 2020
Embed new Enterprise Risk Management Framework	Establish risk identification, assessment, management and reporting processes in accordance with new Aurora Energy Risk Control and Management Policy and Standards	Risk Management Framework established and embedded evidenced by: - Risk based planning and decision making, - Risk registers reviewed regularly and up to date, - Regular reporting processes in place

Goals	Objectives	Performance Measures
Network Management (Targets for Year Ending 31 March) – Continued		
To maximise the utilisation of electricity distribution assets while ensuring that service quality meets the needs of users	Consumer Connections (ICP Count)	Number of customer connections on our network Targets: 2020 89,500 2021 90,000 2022 90,500
	Network efficiency: maintain high overall asset utilisation (load factor %)	Energy into network / peak kW hours Targets: 2020 ≥ 54% 2021 ≥ 54% 2022 ≥ 54%
	Network efficiency: maintain high distribution transformer capacity utilisation (capacity utilisation %)	Peak network kW / installed distribution transformer capacity kVA Targets: 2020 ≥ 30% 2021 ≥ 30% 2022 ≥ 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: 2020 ≤60 2021 ≤60 2022 ≤60

Goals	Objectives	Performance Measures
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Network Reliability (Targets for Year Ending 31 March)

Please note the SAIDI and SAIFI limits set as Performance Measures for 2020, 2021, and 2022 are presently higher than regulated limits set by the Commerce Commission. Aurora Energy is in the process of delivering significant step changes to its network maintenance and renewal works programmes and the associated increase in planned outages will likely result in higher levels of average outage duration and frequencies.

SAIDI and SAIFI Performance Measures are calculated in accordance with the Commerce Commission's Default Price Quality Path methodology.

<p>To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets the service level targets in the company's 2019-2029 Asset Management Plan.</p>	<p>SAIDI System Average Interruption Duration Index - Class B Interruptions (Planned)</p>	<p>Average minutes without electricity per consumer Targets: 2020 ≤ 116.0 minutes 2021 ≤ 116.0 minutes 2022 ≤ 110.0 minutes</p>
	<p>- Class C Interruptions (Unplanned)</p>	<p>Average minutes without electricity per consumer Targets: 2020 ≤ 103.0 minutes 2021 ≤ 100.0 minutes 2022 ≤ 98.0minutes</p>
	<p>- Total</p>	<p>Average minutes without electricity per consumer Targets: 2020 ≤ 219.0 minutes 2021 ≤ 216.0 minutes 2022 ≤ 208.0 minutes</p>

Goals	Objectives	Performance Measures
Network Reliability (Targets for Year Ending 31 March) - Continued		
<p>Please note the SAIDI and SAIFI limits set as Performance Measures for 2020, 2021 and 2022 are presently higher than regulated limits set by the Commerce Commission. Aurora Energy is in the process of delivering significant step changes to its network maintenance and development works programmes and the associated increase in planned outages will likely result in higher levels of average outage duration and frequencies.</p> <p>SAIDI and SAIFI Performance Measures are calculated in accordance with the Commerce Commission's Default Price Quality Path methodology.</p>		
<p>To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets the service level targets in the company's 2019-2029 Asset Management Plan.</p>	<p>SAIFI System Average Interruption Frequency Index - Class B Interruptions (Planned)</p>	<p>Average frequency of outages per consumer Targets: 2020 ≤ 0.51 2021 ≤ 0.50 2022 ≤ 0.43</p>
	<p>- Class C Interruptions (Unplanned)</p>	<p>Average frequency of outages per consumer Targets 2020 ≤ 1.90 2021 ≤ 1.83 2022 ≤ 1.76</p>
	<p>- Total</p>	<p>Targets 2020 ≤ 2.41 2021 ≤ 2.33 2022 ≤ 2.19</p>

Goals	Objectives	Performance Measures
Economic Development		
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
The Shareholder		
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)	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: 2020 Approved 2021 Approved 2022 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 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: 2020 No unnotified potential conflicts 2021 No unnotified potential conflicts 2022 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: 2020 All substantive matters reported within 24 hours 2021 All substantive matters reported within 24 hours 2022 All substantive matters reported within 24 hours

7 Performance Measures

In its Annual Report the Company will record actual performance relating to the targets in Section 6.

8 Financial Forecasts

Please note that the financial forecasts included in this section are derived from assumptions in regards to the future price path and expenditure allowances determined by the Commerce Commission for Aurora Energy. The next regulatory price path re-set will take effect from 1 April 2020.

The Company has also signalled its intention to consult publicly before applying to the Commerce Commission for a Customised Price Path in May 2020. The outcome of this Customised Price Path application is expected to have a significant positive impact on financial performance from 1 April 2021.

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

	Year ending 30/06/2020	Year ending 30/06/2021	Year ending 30/06/2022
Shareholder's Funds to Total Assets	26%	21%	22%

The ratio of Shareholder's Funds to Total Assets (equity ratio) will fluctuate depending on a variety of circumstances including asset renewal and investment cycles. During the three years ended 30 June 2022, the company's equity ratio is forecasted to trend lower as the higher levels of asset renewal expenditure are funded by term debt. We expect this position will begin to improve within the regulated 5 year Customised Price Path period to commence from 1 April 2021.

"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 30/06/2020 \$000	Year ending 30/06/2021 \$000	Year ending 30/06/2022 \$000
Dividend/subvention distributions	Nil	Nil	Nil

c) Other financial forecasts

	Year ending 30/06/2020 \$000	Year ending 30/06/2021 \$000	Year ending 30/06/2022 \$000
EBITDA	11,318	20,475	62,383
Net profit after tax	(18,153)	(15,666)	11,948
Cash flow from operations	9,507	8,557	51,014
Capital expenditure	81,490	79,489	71,692
Term borrowings	391,205	474,215	506,410
Shareholder's funds	167,405	151,740	163,687

9 Dividend Policy

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

- As a regulated business, Aurora Energy has a responsibility to its customers to provide safe, reliable electricity infrastructure. To maintain a reliable network and cater for growth, we are planning to spend in excess of \$790 million on the network over the next decade to be funded by increased revenue, increased borrowings, lower profit and reduced dividends.

Accordingly, the Board anticipates that no dividend will be paid for the next three years during this reinvestment phase.

10 Reporting to the Shareholder

	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	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 31 January
Statement of Intent (Final)				Prior to 30 June

11 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.

12 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.

13 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.

14 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.

15 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 12 above.
- c) The Company is committed to open and transparent engagement with its stakeholders and customers and will maintain a publicly available and actively promoted Customer and Stakeholder Charter and public Information Disclosure Policy consistent with its responsibilities as an Energy Company providing essential infrastructure services.
- d) The Company will not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with the Dunedin City Council's ethical position. For reference, those activities are: tobacco, armaments, fossil fuel extraction, gambling and pornography.
- e) The Company will disclose in its Annual Report the proportion of its workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit – currently \$20.55/hour).

16 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 Services Limited, Dunedin City Treasury Limited, Dunedin Venues Management Limited and Dunedin Stadium Property Limited. Dunedin City Holdings Limited owns 72% of Taieri Gorge Railway Limited 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 construction
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	Provision of debt funding to the Company generating interest payments to DCTL.

17 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 of such Group purchasing to the Group and Dunedin City Council (including the costs of ceasing any such Group purchasing), is greater than any alternative identified.

18 Working with the Shareholder

The company will undertake to keep the Shareholder informed of all substantive matters, in accordance with the performance targets above. The Company will work to build a culture of accountability and constructive working practices between the Company and the Shareholder. It is expected that any conflicts that may arise between the Company and the Shareholder will be resolved directly between the Company and the Shareholder, in accordance with appropriate governance practices.

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.
Te Ao Tūroa - Environment Strategy (early draft themes)	A compelling destination	Marketing Dunedin and exporting education uplift.
	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.
Ara Toi – Arts & Culture Strategy	Sustainable resource use	Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly
	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.
Spatial Plan (2012)	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
	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.
	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.
Parks & Recreation Strategy (early draft themes)	A vibrant and exciting city	A successful arts and culture scene, vibrant central city and local centres.
	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.
Integrated Transport Strategy (2013)	Collaborate to provide and protect	Working collaboratively to improve recreation and environmental outcomes.
	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.

Strategy	Priority	Explanation
	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.