



**Statement of Corporate Intent**  
FY2022 – FY2024

**Northpower**

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Prepared by:

Ollie O'Neill  
Chief Financial Officer

Date:  
24 February 2021

Signature:



Recommended by:

Andrew McLeod  
Chief Executive

Date:  
24 February 2021

Signature:



Approved by:

Mark Trigg  
Northpower, Chair

Date:  
24 February 2021

Signature:



Northpower Limited  
28 Mount Pleasant Road  
Whangārei, New Zealand

Northpower

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# Foreword

## The role of the Statement of Corporate Intent

This Statement of Corporate Intent (SCI) is Northpower's performance commitment to the Northpower Electric Power Trust (NEPT) and its consumer owners.

The operations of the Northpower Group are overseen by a Board of Directors, and Directors use this SCI to guide the direction and deliverables from the Group. It is the reference point for discussions on performance between NEPT Trustees and Northpower Directors.

The targets in this SCI reflect discussions between NEPT Trustees and Northpower Directors on the purpose, outcomes, community role and financial outcomes as set out below.

## Northpower Group Purpose

Northpower's purpose reflects our focus on generating value for the regions of Kaipara and Whangārei from infrastructure and business ownership: Rangitāmiro. Kaitiakitanga - 'We weave the fibres together to create strength. We are guardians of the future'.

More specifically our electricity assets deliver safe, secure and reliable electricity supply across Kaipara and Whangārei districts; our fibre optic networks deliver high-speed communications services to Whangārei and towns in the region; and our contracting group gives access to diversified revenue. These business holdings are complimentary and essential long-term enablers of the Northland economy.

As well as providing services, Northpower provides consumers with the benefits of ownership through a combination of posted discounts to their power bills and dividends to NEPT; and as a key organisation of scale in the North, contributes to the local community via employment, local expenditure and community collaboration with other organisations.

The targets within this SCI reflect this focused contribution to our community.

## Supporting a new energy future

New Zealand energy markets have come a long way since the first power station was built in the region 100 years ago. We benefit from a diversified generation mix and an effective energy market, which has been successful in matching supply to demand since its inception in the 1980's.

We are now seeing the emergence of new renewable energy supply options such as roof top solar, new applications for electricity such as electric cars, and new methods of storing electricity such as in-home battery systems. These developments are complementary to current energy arrangements. Such developments herald a new phase in electricity supply, with options for customers to take an increased role in generating, balancing and tailoring their electricity use.

Northpower is committed to doing its part in supporting this natural integration of new energy solutions, and our networks are a key community platform to support their implementation. We are preparing for this future in a number of key ways:

- We are lifting investment in our electricity network to ensure it continues to provide a safe, secure and reliable supply of electricity, accommodating growth in our region and supporting integration of new energy solutions. We have allocated \$251 million over the next 10 years to this purpose.
- We are refining the way we charge our customers to ensure the charges we impose are reflective of actual cost, ensure equitable and fair charges as new energy solutions emerge and put a focus on managing our wider business operations in a way that will enable us to lift the level of rebate we provide our customers over time.
- We are improving the way we work with customers by streamlining and modernising the way our customers communicate with us, creating new options locally for completing work associated with our network and taking an active stake in understanding, enabling and providing advice on new energy options.

The targets within this SCI reflect this balanced focus on network reliability, strong financial returns to consumer owners and high levels of customer satisfaction.

### A critical wider role in our community

Northpower is a Northland success story, growing from a small regional power board to become one of New Zealand's top 200 companies (by total revenue). We employ over 1300 people across our operations, and we generate over \$20 million per year in net profit for investment back in our community.

With success comes responsibility, and Northpower works closely with other local businesses to advocate and enable growth in the North. We build capability locally via our engineering cadetship programmes and we support a range of key local services, such as the rescue helicopter and healthy homes programme, we consider critical to supporting our community.

As the local provider of high-speed fibre, we also now have a central role in ensuring effective telecommunications services for Whangārei and the larger towns in Kaipara and Whangārei districts. Providing ease of connection and excellent ongoing service is a key focus for us.

The targets in this SCI reflect this focus on hitting the right standard from our fibre network and making a strong contribution to our local community.

### Ensuring a balanced financial position

Our core business holdings (electricity, fibre and contracting) are complementary; they provide us with the scale needed to operate efficiently, the diverse expertise needed to operate in fast changing markets and the financial capability to enhance and grow these businesses over time.

We maintain a keen eye on the financial metrics of Northpower Group to ensure appropriate strength and resilience of our financial position; we see this as essential given the critical long-term nature of our asset ownership. A strong financial position, including appropriate management of debt helps ensure we retain necessary capacity to weather the inevitable ups and downs of being in business.

The targets in this SCI reflect this keen focus on effective financial management and appropriate debt management.

**Erc Angelo**  
NEPT Chair



**Mark Trigg**  
Northpower Chair





# Why we exist

Our purpose

“Rangitāmiro. Kaitiakitanga





d.”

We weave the fibres together  
to create strength.  
We are guardians of the future.



# Introduction

This Statement of Corporate Intent ("SCI") sets out the background, overall intentions and objectives for Northpower Limited and its subsidiaries ("the Northpower Group" or "the Group") for the period FY22 - FY24.

## Our Context

### Corporate Objectives

The principal objective of the Northpower Group is to provide a safe, secure and reliable supply of electricity, while operating as a successful and sustainable business for the benefit of its shareholders, the electricity consumers of Kaipara and Whangārei.

In pursuing Northpower's objectives, our business activities will be guided by the following principles:

- Demonstrate safety leadership and performance in all areas that we operate
- Drive sustainable financial performance and improvement over time
- Ensure that our stakeholders benefit from effective and reliable network infrastructure ownership and operation

### Scope of Activities

The scope of activities undertaken by the Group includes:

- Ownership and operation of electrical and fibre distribution networks
- The supply of network and operations services for the distribution and transmission of electricity and communications
- Provision of design, construction, maintenance and professional services for electricity and fibre networks

The Group will consult its shareholders before entering any new markets or business activities that significantly alter/affect the Group's risk position. Further, the Group will promptly report to shareholders on any transaction(s) that could materially impact the Group's risk exposure.

### Subsidiaries

As at 1 April 2021, Northpower Fibre Ltd (NFL) is now a 100% owned subsidiary of Northpower with the Minister of Finance holding one special share. Northpower Fibre Ltd provides ultra-fast broadband ("UFB") services in our network area.

Northpower Local Fibre Company 2 ("LFC2") has been amalgamated into NFL.

# Our Key Performance Indicators

As set out in the foreword of this SCI, our regulated business holdings must adapt, as reduced allowable returns from our networks, increased capital needs, and technological change converge to impact on our sector.

The changes we are facing are structural in nature, and directly impact our core financial metrics. They must also be viewed within the context of a decline in the cost of debt and the level of earnings required to service this debt. We have refined our core financial metrics to reflect these points.

Changes impacting the sector also impact our non-financial metrics. As we move to lift capital expenditure to address end of life assets, the number and duration of network outages will rise as we move to replace assets. Aging networks also make our networks more susceptible to variable weather patterns with some anticipated impacts on unplanned outages.

The following Key Performance Indicators (KPIs) set out our anticipated performance for the year ending 31 March 2022, as well as a representative view of the projected financial performance of the Northpower Group over the planning period to 2024.

Our KPIs seek to ensure we strike an appropriate balance between a reliable service offering, the level of debt we take on to support increased levels of investment, and appropriate financial returns as we adapt to the factors impacting our sector.

## Financial KPIs

Our financial KPIs reflect our focus on ensuring an appropriate balance and focus on business performance, lifting distributions to our consumer owners and our management of longer term debt levels. Our targets are set at a Group level and reflect the strength of our complementary asset holding.

	2021-22	2022-23	2023-24
<b>Northpower Group</b>			
Net Profit After Tax/Shareholders' Funds <sup>1</sup> (pre-distribution)	≥7.5%	≥7.5%	≥7.5%
Debt/Capital Ratio (Net Debt)/( Net Debt + Equity)	≤40%	≤40%	≤40%
Debt Coverage Ratio (Net Debt)/(EBITDA)	≤4.25x	≤4.25x	≤4.25x
Distribution (posted discount plus dividend)	\$12.3m	\$13m	\$16.4m

Key changes in relation to our financial KPIs:

- Net Profit After Tax/Shareholders' Funds is calculated pre-discount as this reflects the underlying operational performance before distributions.
- Updated to Debt/Capital Ratio to reflect the percentage of debt in the companies' capital structure. Debt Coverage Ratio includes total debt to provide a more accurate measure of the company's ability to service debt.

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<sup>1</sup> NPAT/Shareholder' Funds excludes the impact of fair value adjustments.

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## Non-Financial KPIs

Our non-financial KPIs reflect our core operational focus on safety, network reliability and customer satisfaction. As a company with a long operational history we understand that structured and sustained focus is required to ensure consistent outcomes in these areas.

The principal objective of the Northpower Group is to provide a safe, secure and reliable supply of electricity, while operating as a successful and sustainable business for the benefit of its shareholders, the electricity consumers of Kaipara and Whangārei.

	2021-22	2022-23	2023-24
<b>Safety</b>			
Total Recordable Injury Frequency Rate (TRIFR) <sup>2</sup>	≤8	≤6	≤6
Permanent disability and/or fatality	0	0	0
High Potential Event Frequency Rate (HPEFR) <sup>3</sup>	≤5	≤5	≤5

Key changes in relation to our safety targets:

- Aligning with Northpower's Health and Safety strategy to improve workplace safety, our SCI reports two new metrics to support our focus on managing critical risks to prevent serious harm.

	2021-22	2022-23	2023-24
<b>Northpower Electricity Network</b>			
Network Interruptions (SAIDI minutes) <sup>4</sup> - Planned <sup>5</sup>	≤162.05	≤162.05	≤162.05
- Unplanned	≤93.31	≤93.31	≤93.31
Network Interruptions (SAIFI) <sup>6</sup> - Planned	≤0.7231	≤0.7231	≤0.7231
- Unplanned	≤2.2843	≤2.2843	≤2.2843
Average Number of Faults per 100 km <sup>7</sup>	≤10	≤10	≤10
Customer Satisfaction (Residential) <sup>8</sup>	≥85%	≥85%	≥85%
Customer Satisfaction (Commercial)	≥85%	≥85%	≥85%

Supporting our core commitment to provide safe, resilient and reliable electricity, we have aligned our calculation methodology for interruptions to match the Commerce Commission Default Price Quality Path (DPP) regime for regulated Electricity Distribution Businesses (EDBs). The performance metrics reflect the simulated caps under the DPP's quality regime.

Key changes in relation to our electricity network reliability targets:

- Consistent with DPP methodology, calculations for Unplanned SAIDI and SAIFI will be normalised to remove extreme events in order to provide a robust view of the underlying performance of our network.
- Planned and Unplanned SAIFI will be reported separately to provide greater transparency of the impact of outages on our consumers.

<sup>2</sup>TRIFR: Number of Lost Time Injuries (LTIs) + Medically Treated Injuries (MTIs) + Restricted Treatment Injuries (RTIs)/hours worked x 1,000,000 hours.

<sup>3</sup>HPEFR: Number of events classified as having potential for serious harm/hours worked x 1,000,000 hours.

<sup>4</sup>SAIDI: System average interruption duration index – the average duration of interruptions to supply consumers on average in the year for planned and unplanned outages. Unplanned SAIDI normalised to remove extreme events according to methodology used for regulated EDBs.

SAIDI =  $\frac{\text{Sum of (number of interrupted consumers x interruption duration)}}{\text{Average number of connected consumers}}$

Average number of connected consumers

<sup>5</sup>Planned interruptions (SAIDI minutes) targets have been amended to align with Northpower AMP and regulatory targets.

<sup>6</sup>SAIFI: System average interruption frequency index is the average number of interruptions to supply experienced by consumers for planned and unplanned outages. Unplanned SAIFI normalised to remove extreme events according to methodology used for regulated EDBs.

<sup>7</sup>Faults per 100km: A fault is classified by the Commerce Commission as "a physical condition that causes a device, component or network element to fail to perform in the required manner". The measure calculates the faults per 100km averaged for all voltages.

<sup>8</sup>Customer satisfaction is measured via an annual survey and measures overall satisfaction with the services we provide.

		2021-22	2022-23	2023-24
<b>Northpower Fibre Network</b>				
Network Availability (Max downtime)	- Layer 1	≤120 min	≤120 min	≤120 min
	- Layer 2	≤30 min	≤30 min	≤30 min
Faults (Max downtime)	- Layer 1	99% within 48 hrs	99% within 48 hrs	99% within 48 hrs
	- Layer 2	99% within 12 hrs	99% within 12 hrs	99% within 12 hrs
Service Level Performance (Residential) <sup>9</sup>		≥95%	≥95%	≥95%
Service Level Performance (Commercial)		≥95%	≥95%	≥95%

The quality targets for our fibre networks remain unchanged.

## Policy and Procedure Statements

### Accounting Policies

The Group's accounting policies will comply with the legal requirements of the Companies Act 1993, the Financial Reporting Act 1993 and will be consistent with generally accepted accounting principles. Financial Statements will comply with New Zealand equivalents to International Financial Reporting Standards and other applicable financial reporting standards as appropriate for profit-oriented entities.

### Dividend Policy

The Group will distribute to its shareholder all funds surplus to the investment and operating requirements of the Group. The estimated dividend to the shareholder in FY22 is \$0.6m, subject to the solvency requirements of the Companies Act 1993, the maintenance of the minimum debt to capital ratio specified and meeting the investment needs of the Group. In addition, consumers will receive a posted discount estimated at \$11.7m in FY22, providing a total distribution of \$12.3m by way of dividend to the shareholder and posted discount to consumers.

### Debt/Capital Ratio Policy

The ratio of debt to capital (debt/capital ratio) will be maintained at less than or equal to 40%. The debt/capital ratio for the next three years is as set out in the KPIs and takes into account projected capital needs and minimum distribution payments as set out in the Dividend Policy.

### Debt will comprise of the Group's total debt.

Capital of the Group will comprise of total shareholders' funds plus total debt.

### Significant Transaction Policy

As a general policy, any proposed share investment by the Group will be required to meet the same financial criteria as any significant capital expenditure. In addition, the questions of control and risk will be addressed.

All share investment proposals will be considered by the Group's Board of Directors.

<sup>9</sup>Service level performance (residential) measures the percentage of customers connected within target timeframes.

# Matters Required by the Companies Act 1993 and the Energy Companies Act 1992

The Group will provide information to its shareholder, the Northpower Electric Power Trust (“NEPT” or “shareholder”), in accordance with the requirements of the Companies Act, Energy Companies Act and other relevant legislation.

## Half Yearly Report

A half yearly report will be delivered to the Group’s shareholder within three months after the end of each half of the financial year covering the operations for the half year period including performance against the metrics defined in the SCI.

## Annual Report

An annual report will be delivered to the Group’s shareholder within three months of the end of each financial year and will comprise:

- i. A report from the Directors covering the operations for the year
- ii. Audited consolidated financial statements for the financial year in respect of the Group
- iii. Auditors’ report on the financial statements and the performance targets (together with other measures by which performance of the Group has been judged in relation to the Group’s objectives)

## Related Party Transactions

Sales and purchases from related parties are made on commercial arm’s length terms.

Northpower does not propose any transactions with any related party, except as set out below. The following support services will be provided to Northpower Fibre Limited, including the following as required:

- i. Treasury and accounting services
- i. Human resource management services
- i. Health and safety management services
- ii. Specialised technical and/or construction services
- iii. Operation and maintenance services
- iv. Information systems services



# Additional Information to be Provided

## Annual Planning

Early engagement between the shareholder (NEPT) and the Northpower Board of Directors supports the development of the annual SCI and strategic plan.

The draft SCI will be delivered to NEPT within one month of the end of each financial year.

A summary of the Northpower Group annual strategic plan and risk appetite framework will be provided to NEPT within one month of the start of the new financial year.

## Quarterly Reports

The Group will provide quarterly reports to the Group's shareholder within two months of the end of the quarter, which will comprise divisional level reporting of the financial performance for the period.

## Further Information

It will be possible for the shareholder to request further information or reports from the Directors where the information relates to matters affecting shareholders and the value of their investment in the Company.

The Chairman and Chief Executive will provide regular briefings to NEPT on all material matters and will ensure that they are provided with the appropriate information, including providing information relevant to material adjustments of electricity network pricing tariffs.

