

A photograph of two workers in orange safety gear. The worker in the foreground is wearing a white hard hat with a headlamp, safety glasses, and a bright orange raincoat with reflective silver stripes. The worker in the background is also wearing a white hard hat and an orange safety jacket. They appear to be in a construction or industrial setting with a white vehicle in the background.

Northpower

Statement of Corporate Intent
FY2021 – FY2023

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Northpower

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Foreword

Group Purpose

Northpower delivers network services, and the benefits of ownership to our consumer owners.

Our electricity assets deliver safe, secure and reliable electricity supply across Kaipara and Whangarei districts, and our fibre optic network delivers high-speed communications facilities to premises across the mid-North region. Northpower also operates a contracting services division, which supports our networks directly and provides commercial services across the North Island.

Northpower provides consumers with the benefits of ownership through a combination of posted discounts to their power bills and dividends to the Northpower Electric Power Trust (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 Statement of Corporate Intent (SCI) reflect this focused contribution to our community.

Traversing a period of change

At the time we issue this document, the electricity distribution sector is entering a once in a generation shift where three key factors converge and impact its operations:

- As energy infrastructure installed in the 50's and 60's reaches the end of its useful life, and we experience population growth in the North, we face **increasing capital requirements** to ensure safe, secure and reliable network services;
- As new technologies such as electric vehicles, in-home solar, and battery technology increasingly put power in the hands of our customers, we face **a need to lift the capabilities of our networks** to enable these solutions to be seamlessly and cost effectively integrated; and
- As industry regulators move to reflect structural changes in investment markets, we must accept **reduced allowable returns from core network assets** and adjust our pricing to reflect new regulatory settings.

Within this context, and noting our community trust ownership, we are conscious of the need to strike an effective balance between prices to customers, levels of debt (and associated risks), network performance and distributions to our consumer owners.

The targets within this SCI reflect a reasoned and considered strategy to balance these elements.

The critical role of governance

In times of change, structured, considered and prudent governance is critical.

We are confident that the governance arrangements between the Northpower Electric Power Trust and the Northpower Board ensure appropriate direction is provided as we traverse this period of industry change.

Our governance structure has performed strongly in recent years, and supported strong and early business positioning as we lean into the industry changes ahead of us. We are proud of the progress made over the past 12 months including:

- Resetting our capital expenditure plans with more than \$200M committed over the next 10 years to address urban growth, replace aging infrastructure and improve climatic resilience.
- Accelerating the rollout of ultra-fast broadband to reach satellite towns faster, bringing forward the build of Mangawhai Heads and Kaiwaka to complete in 2020.
- Upgrading the control aspects of our networks to prepare for the intensification of distributed generation and electric vehicles on our network.
- Refining our pricing and price discount arrangements to better reflect the true cost of service and developing a tariff structure that does not create undue hardship for consumers.
- Tailoring the way we work with our customers to improve new connections and our communications during outage events.
- Engaging with proposed regulatory change to reach the best outcomes for our consumers on matters including Transmission Pricing Methodology and the Electricity Price Review.
- Investing in our contracting division to position it as a key enabler of Group performance, and in support of other EDBs as they traverse market change.

The structure of the governance we will apply is set out in the body of this SCI.

Leveraging our wider asset holdings

Northpower has a strong track record of distributing electricity safely, reliably and at an affordable price. That core purpose remains central to our future plans.

Over the years we have built on this core purpose to bring high speed fibre communications to our region, and built a contracting group of material scale which contributes a strong earnings stream to the Group. Our three core businesses are complementary.

The Northpower Board and Trust are confident that this blend of business ownership gives us appropriate asset holding, earnings capability, and scale to make the most of this period of emerging technology and industry change.

The targets set out in this SCI are designed to ensure strong outcomes for our consumer owners, and will require a tight focus on the performance of Group businesses by Northpower's Management Team to deliver them. We have every confidence in their ability to do so.

We look forward to achieving this shift and delivering on the commitments this SCI represents.



Erc Angelo

NEPT Chair



Nikki Davies-Colley

Northpower Chair

Why we exist

OUR PURPOSE

“Ko nga rangitāmiro
me te kaitiakitanga”

*By splicing the fibres together we
create strength and we are trusted
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 ending 31 March 2021.

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 Whangarei.

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; and
- 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; and
- 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

Northpower Fibre Ltd is a joint venture company in which Northpower Ltd currently holds 70% shares (as at 31 March 2020) in conjunction with Crown Fibre Holdings Ltd, and 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”), established in 2017, is the company responsible for the ultra-fast broadband build to twelve additional towns in Northpower’s network area under the Government’s UFB2 initiative.

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 2021, as well as a representative view of the projected financial performance of the Northpower Group over the planning period to 2022.

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

	2020-21	2021-22	2022-23
Northpower Group			
Net Profit After Tax/Shareholders' Funds ¹ (pre-distribution)	≥7.5%	≥7.5%	≥7.5%
Net Profit After Tax/Shareholders' Funds ² (post-distribution)	≥5%	≥5%	≥5%
Capital Ratio	50%	50%	50%
Debt Coverage Ratio (External Debt)/(EBIT)	≤4.25x	≤4.25x	≤4.25x
Distribution (posted discount plus dividend)	≥\$10.9m	≥\$10.9m	≥\$12.3m

Key changes in relation to our financial KPIs:

- Return on Equity is calculated both pre and post discount, as discount reduces profitability.
- Capital Ratio is reduced to reflect impact of new leasing standard IFRS16.

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

² NPAT/Shareholder' Funds excludes the impact of fair value adjustments.

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.

Over the past 12 months our results for both safety and network reliability have drifted outside the range we aspire to. As a result we have put active strategies in place to return performance to target levels over time.

	2020-21	2021-22	2022-23
Safety			
Total Recordable Injury Frequency Rate (TRIFR) ³	≤8	≤6	≤5

Key changes in relation to our safety targets:

- Our TRIFR targets reflect our aspirational goal for a progressive shift towards best practice for our industry as our safety strategies gain progressive traction.

	2020-21	2021-22	2022-23
Northpower Electricity Network			
Network Interruptions (SAIDI minutes ⁴) - Planned ⁵	≤100	≤100	≤100
- Unplanned	≤105	≤105	≤100
Average Number of Faults per 100 km ⁶	≤10	≤10	≤10
Network Interruptions (SAIFI) ⁷	≤3.25	≤3.25	≤3.25
Customer Satisfaction (Residential) ⁸	≥85%	≥85%	≥85%
Customer Satisfaction (Commercial)	≥85%	≥85%	≥85%

Key changes in relation to our electricity network reliability targets:

- We have refined Planned SAIDI targets to reflect increased levels of planned work on our networks.
- We have refined our Unplanned SAIDI targets to reflect the impact of aging networks and increased weather related volatility.
- We have refined Planned SAIFI and Unplanned SAIFI targets on the same basis as SAIDI.

³ TRIFR: Number of Lost Time Injuries (LTIs) + Medically Treated Injuries (MTIs) + Restricted Treatment Injuries (RTIs)/(hrs worked x 1,000,000 hrs).

⁴ SAIDI: System average interruption duration index – the average duration of interruptions to supply consumers on average in the year.

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

⁵ Planned interruptions (SAIDI minutes) target has been reduced to align with Northpower AMP and regulatory targets.

⁶ 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.

⁷ SAIFI: System average interruption frequency index is the average number of interruptions to supply experienced by consumers.

⁸ Customer satisfaction is measured via an annual survey, and measures overall satisfaction with the services we provide.

		2020-21	2021-22	2022-23
Northpower Fibre Network				
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) ⁹		≥95%	≥95%	≥95%
Service Level Performance (Commercial)		≥95%	≥95%	≥95%

The quality targets for our fibre networks remain materially 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 FY21 is \$0.6m, subject to the solvency requirements of the Companies Act 1993, the maintenance of the minimum capital ratio specified below and meeting the investment needs of the Group. In addition, consumers will receive a posted discount estimated at \$10.3m in FY21, providing a total distribution of \$10.9m by way of dividend to the shareholder and posted discount to consumers. This is consistent with the prior financial year.

Capital Ratio Policy

The ratio of shareholders' funds to total assets (capital ratio) will be maintained at greater than 50 percent. The capital ratio for the next three years is as set out in the Key Performance Indicators ("KPIs") and takes into account projected capital needs and minimum dividend payments as set out in the Dividend Policy.

Total assets of the Group will comprise all the recorded tangible and intangible assets at their current book value as defined in the Group's Statement of Accounting Policies.

Consolidated shareholders' funds will comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves.

⁹ Service level performance measures the percentage of customers connected within target timeframes.

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. For acquisitions that reduce the Group's ratio of Consolidated Shareholder Funds to Total Assets below 50%, recommendations will be made to the shareholder who will make a decision in respect of such acquisitions.

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; and
- (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 and LFC2, including the following as required:

- (i) Treasury and accounting services;
- (ii) Human resource management services;
- (iii) Health and safety management services;
- (iv) Specialised technical and/or construction services;
- (v) Operation and maintenance services; and
- (vi) 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.