

New Zealand Gazette

OF THURSDAY, 29 AUGUST 1996

WELLINGTON: WEDNESDAY, 4 SEPTEMBER 1996 — ISSUE NO. 105

HOROWHENUA ENERGY LIMITED

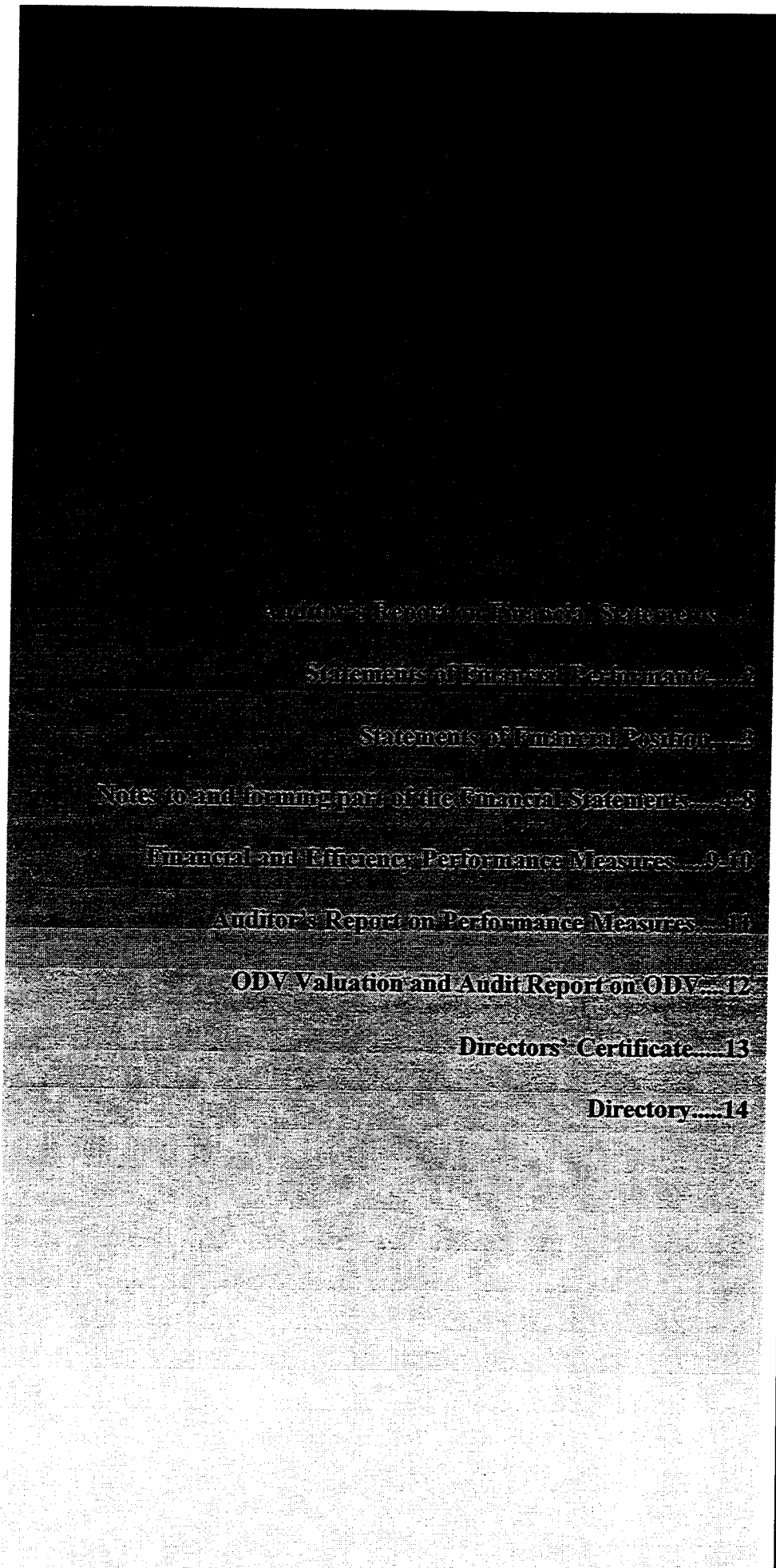
INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1994

Horowhenua Energy Limited
Line and Energy Businesses

ANNUAL REPORT
for the year ended
31 March 1996

*Information for Disclosure
Pursuant to the Electricity (Information
Disclosure) Regulations 1994*



Auditor's Report on Financial Statements.....1

Statements of Financial Performance.....2

Statements of Financial Position.....3

Notes to and forming part of the Financial Statements.....4-8

Financial and Efficiency Performance Measures.....9-11

Auditor's Report on Performance Measures.....11

ODV Valuation and Audit Report on ODV.....12

Directors' Certificate.....13

Directory.....14

AUDITOR'S REPORT ON FINANCIAL STATEMENTS



Audit New Zealand

CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS

I have examined the attached financial statements prepared by Horowhenua Energy Limited and dated 26 August 1996 for the purposes of Regulation 6 of the Electricity (Information Disclosure) Regulations 1994.

I hereby certify that, having made all reasonable enquiry, to the best of my knowledge, those financial statements give a true and fair view of the matters to which they relate and have been prepared in accordance with the requirements of the Electricity (Information Disclosure) Regulations 1994.

A handwritten signature in black ink, appearing to read 'David Cruickshank', written over a horizontal line.

David Cruickshank
Audit New Zealand
On behalf of the Controller and Auditor-General
Wellington, New Zealand

26 August 1996

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 1996

	Note	LINE		ENERGY	
		1996 \$000	1995 \$000	1996 \$000	1995 \$000
SALES REVENUE		\$18,024	\$16,427	\$17,364	\$16,316
NET PROFIT BEFORE TAXATION		100	90	297	(316)
Taxation		0	0	0	0
Reduction in value of land		0	(166)	0	0
NET PROFIT AFTER TAXATION AND REDUCTION IN VALUE OF LAND		100	(76)	297	(316)
Retained earnings at beginning of year		(551)	(445)	110	426
TOTAL AVAILABLE FOR APPROPRIATION		(451)	(521)	407	110
Provision for Dividends	2	(93)	(30)	0	0
RETAINED EARNINGS AT END OF YEAR		(544)	(551)	407	110

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 1996

	Note	LINE		ENERGY	
		1996 \$000	1995 \$000	1996 \$000	1995 \$000
SHAREHOLDERS' FUNDS		\$53,227	\$27,130	\$1,081	\$541
CURRENT LIABILITIES					
Accounts payable and accruals	3	5,764	5,324	1,518	1,319
Other provisions		<u>371</u>	<u>39</u>	<u>0</u>	<u>0</u>
		6,135	5,363	1,518	1,319
		59,362	32,493	2,599	1,860
FIXED ASSETS	4	54,470	30,646	103	115
CURRENT ASSETS					
Cash		3,730	3	0	0
Receivables and Accruals	5	1,162	1,844	2,496	1,745
		59,362	32,493	2,599	1,860

For and on behalf of the Board


W R Thessman, Chairman


A T Colbert, Director

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

1 STATEMENT of accounting policies

ACCOUNTING ENTITY

The Financial Statements are those of the Line and Energy Businesses of Horowhenua Energy Limited. Information in respect of subsidiaries is included in the financial statements to the extent required by Regulation 6(5) of the Electricity (Information Disclosure) Regulations 1994. Horowhenua Energy Limited and its subsidiary, Linework Limited, are in a "Prescribed Business Relationship" as defined by Regulation 3(1)(a)(iii) of the Electricity (Information Disclosure) Regulations 1994.

The period reported is 1 April 1995 to 31 March 1996.

These Financial Statements are prepared in accordance with Regulations 6(2) and 6(3) of the Electricity (Information Disclosure) Regulations 1994. The Financial Statements have not been prepared for the purpose of the Financial Reporting Act 1993, or the Energy Companies Act 1992.

PRINCIPAL ACTIVITIES

The Line Business operates a line business activity, as defined by regulation 2 of the Electricity (Information Disclosures) Regulations 1994, in and around the Horowhenua and Kapiti Coast area.

The Energy Business operates a retail business activity, as defined by the regulation 2 of the Electricity (Information Disclosure) Regulations 1994, in and around the Horowhenua and Kapiti Coast area.

METHODOLOGY OF SEPARATION OF BUSINESS

Horowhenua Energy Limited has generally followed the Electricity Disclosure Guidelines as issued by the Ministry of Commerce dated 23 June 1994 with the exceptions noted below.

The Guidelines were issued by the Energy Policy Group of the Ministry of Commerce as guidance to assist Electricity Companies to comply with the Electricity (Information Disclosure) Regulations 1994.

Exceptions to the guidelines are noted in the Allocation Methodologies Disclosure which will be publicly disclosed.

MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the company, with the exception that certain network assets have been re-valued.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

a) Fixed Assets

The company has five classes of fixed assets:

Freehold land and buildings
Network assets
Capital work in progress
Plant and equipment
Vehicles

On 1 April 1995 the Company adopted Optimised Deprival Value ("ODV") methodology in valuing most network assets. This methodology recognised the economic value of network assets based on the earnings segments of the network provided to the Company. The ODV of most network assets will be updated every two years to reflect network extensions and the earnings derived.

Also from 1 April 1995 the Company adopted infrastructure accounting methods which recognise that well planned maintenance of the network assets preserves their full economic value.

Freehold land is stated at the latest Government Valuation.

All other assets are recorded at cost.

b) Depreciation

Depreciation is provided on either a diminishing value (DV), or straight line (SL) basis on all tangible fixed assets other than certain network assets and freehold land, at rates calculated to allocate the assets' cost or valuation less estimated residual value, over their estimated useful lives.

Leased assets are depreciated over the shorter of the un-expired period of the lease and the estimated useful life of the asset.

Depreciation rates are:

Substation assets	4% straight line
Freehold buildings	1% - 2.5% straight line
Plant and equipment	10% - 25% diminishing value
Computer equipment	20% straight line
Vehicles	20% - 25% diminishing value

c) Receivables

Receivables are stated at their estimated realisable value.

d) Leases

The Company leases certain land and buildings.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal installments over the lease term.

e) Financial Instruments

The Energy Business is party to financial instruments with off balance sheet risk to meet financing needs and to reduce exposure to fluctuations in electricity purchase prices.

f) Changes in Accounting Policies

On 1 April 1995 the Company adopted infrastructure accounting methods and valued most network assets using ODV methodology. All other accounting policies have been applied on bases consistent with those used in the previous year.

The effect of the change to ODV was an increase in the value of network assets of \$20.3 million. The impact of the adoption of infrastructure accounting in the current financial year resulted in a reduction in depreciation of approximately \$1.6 million and an increase in maintenance of approximately \$0.9 million.

2 DIVIDENDS

	LINE		ENERGY	
	1996 \$000	1995 \$000	1996 \$000	1995 \$000
Proposed Dividends	93	30	0	0

3 ACCOUNTS PAYABLE and accruals

	LINE		ENERGY	
	1996 \$000	1995 \$000	1996 \$000	1995 \$000
TransPower, ECNZ, PowerBuy	1,189	687	1,518	1,284
Other Trade Creditors	2,698	2,527	0	35
Inter-Company payables	422	255	0	0
Accruals and provisions	1,301	1,658	0	0
Electricity deposits	154	197	0	0
	5,764	5,324	1,518	1,319

4 FIXED ASSETS

	LINE		ENERGY	
	1996 \$000	1995 \$000	1996 \$000	1995 \$000
Freehold land (at valuation)	336	336	0	0
Freehold buildings (at cost)	638	701	0	0
Accumulated depreciation	89	71	0	0
	549	630	0	0
Network Assets	65,616	41,332	0	0
Accumulated depreciation	16,510	16,430	0	0
	49,106	24,902	0	0
Plant and Equipment (at cost)	4,139	3,374	128	111
Accumulated depreciation	1,979	1,302	35	10
	2,160	2,072	92	101
Vehicles (at cost)	340	400	25	25
Accumulated depreciation	120	160	14	11
	220	240	11	14
Capital assets in progress	2,099	2,466	0	0
Total Fixed Assets	54,470	30,646	103	115

Freehold land is stated at latest Government Valuation.

The Optimised Deprival Value (ODV) of the network was assessed by KPMG Peat Marwick as at 31 March 1995. Their report places an ODV on network assets of \$50.05 million.

5 RECEIVABLES

and repayments

	LINE		ENERGY	
	1996 \$000	1995 \$000	1996 \$000	1995 \$000
Trade debtors	1,184	1,919	2,596	1,845
Inter-Company receivables	26	15	0	0
Prepayments	52	10	0	0
	1,262	1,944	2,596	1,845
less Provision for doubtful debts	100	100	100	100
	1,162	1,844	2,496	1,745

6 FINANCIAL

instruments

CREDIT RISK

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable.

The Company performs credit evaluations on all customers requiring credit. Where a satisfactory credit reference is obtained the Company generally does not require collateral.

Maximum exposures to credit risk as at balance date are:

	LINE	ENERGY
	1996 \$000	1996 \$000
Bank Balances	3,730	0
Receivables	1,162	2,496

The above maximum exposures are net of any recognised provision for losses on these financial instruments.

Investments in short term deposits are made with registered banks with satisfactory credit ratings.

CREDIT FACILITIES

The Company has total banking facilities of \$7,200,000 (1995: \$3,200,000).

FAIR VALUES

There were no differences between the fair value and carrying amounts of financial instruments as at 31 March 1996.

7 CONTINGENT

liabilities

At any point in time the Company will be investigating complaints or queries about various aspects of the service it provides to customers. In a number of these actions may be taken against the Company. At 31 March 1995 there was legal action taken against the former Horowhenua Electric Power Board which remains unresolved. The Directors have been advised that the Company has good defence against any action that may be taken against it and that no provision for loss is required in the financial statements.

8 COMMITMENTS

CAPITAL COMMITMENTS

At balance date, estimated expenditure contracted for and approved by the Company totaled \$986,000 (1995: \$3.442 million).

9 TRANSACTIONS *with related parties*

During the year Horowhenua Energy Limited purchased construction and maintenance services from a subsidiary, Linework Limited, to an amount of \$2.63 million (1995: \$2.77 million).

During the year the Company purchased all its electricity requirements through PowerBuy Limited, an associate company. Total purchases for the year amounted to \$16.03 million. In addition, a management fee of \$47,310 was paid to PowerBuy Limited.

No related party debts have been written off or forgiven during the year.

FINANCIAL AND EFFICIENCY PERFORMANCE MEASURES FOR THE YEAR ENDED 31 MARCH 1996

INTRODUCTION

The Electricity (Information Disclosure) Regulations 1994 forms part of the "light handed" regulatory regime introduced following deregulation of the Electricity Industry.

The Regulations require Electricity Companies that operate a Line Business to publicly disclose in the Gazette and have available on request a variety of information. Included in this disclosure are the Financial, Reliability and Efficiency Performance Measures and Statistics.

In order to consistently define these measures to allow comparison between Electricity Companies, the Regulations require a number of adjustments to be made to the Financial Statements. For this reason, the Financial Statements disclosed are not necessarily the basis of information used for calculations in Performance Measures and Statistics.

This information has been prepared solely for the purpose of complying with regulations 13, 14, 15 and 16 of the Electricity (Information Disclosure) Regulations 1994 and are not intended for any other purpose.

FINANCIAL MEASURES

	Before Discount	After Discount
Accounting return on total assets (ODV value)	5.69%	0.19%
Accounting return on equity (ODV value)	7.05%	0.25%
Account rate of profit (on ODV valuation)	5.85%	0.35%

EFFICIENCY

performance measures

	1996
Direct line costs per kilometre (including infrastructure maintenance costs)	\$1,331
Direct line costs per kilometre (excluding infrastructure maintenance costs)	\$846
In-direct line costs per electricity customer	\$99

ENERGY DELIVERY

performance measures

Load factor	53.39%
Loss ratio	6.58%
Capacity utilisation	28.21%

STATISTICS

System Length	Overhead	Underground	Total
33kV	156	1	157
11kV	806	141	947
400v	503	296	799
TOTAL	1,465	439	1,904

Transformer capacity kVA	260,178
Maximum demand kW	73,400
Total electricity supplied from system kWh	320,697,000
Electricity on behalf of other entities	0
Total Customers	34,827

CLASS	A	B	C	D	E	F	G	TOTAL
Interruptions	0	176	185	7	0	0	0	368
SAIDI	0.0	60.7	109.0	13.3	0.0	0.0	0.0	182.9
SAIFI	0.0	0.5	3.6	1.0	0.0	0.0	0.0	5.0
CAIDI	0.0	122.1	61.3	40.0	0.0	0.0	0.0	36.2

Number of Faults per Circuit Kilometre	Overhead	Underground	TOTAL
33kV	11.5	0.0	11.5
11kV	19.9	9.9	29.8
TOTAL	31.4	9.9	41.3

AUDITOR'S REPORT ON FINANCIAL STATEMENTS



Audit New Zealand

CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS

I have examined the attached information, being:

- financial performance measures specified in clause 1 of Part II of the First Schedule to the Electricity (Information Disclosure) Regulations 1994 *and*
- financial components of the efficiency performance measures specified in clause 2 of Part II of that Schedule

and have been prepared by Horowhenua Energy Limited and dated 26 August 1996 for the purposes of Regulation 13 of those Regulations.

I certify that, having made all reasonable enquiry, to the best of my knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1994.

A handwritten signature in black ink, appearing to read 'David Cruickshank', with a long horizontal line extending to the right.

David Cruickshank
Audit New Zealand
On behalf of the Controller and Auditor-General
Wellington, New Zealand

26 August 1996

ODV VALUATION

The Optimised Deprival Value (ODV) of the network was assessed by KPMG Peat Marwick as at 31 March 1995. This report placed an ODV on network assets of \$50.05 million.

 **Peat Marwick**

Chartered Accountants

CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION

HOROWHENUA ENERGY LIMITED TRADING AS ELECTRA

I have examined the valuation report prepared by KPMG Peat Marwick and dated 1 May 1995, which report contains valuations as at 31 March 1995.

I hereby certify that, having made all reasonable enquiry, to the best of my knowledge, the ODV valuations contained in the report have been made in accordance with the ODV Handbook.


ROSS BUCKLEY
Partner

12 June 1995

DIRECTOR'S CERTIFICATE

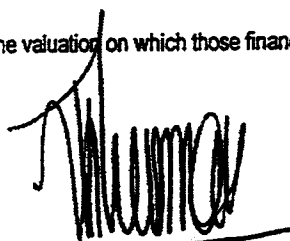
CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES AND STATISTICS BY DIRECTORS OF HOROWHENUA ENERGY LIMITED

We, Warren Thessman, Chairman, and Alan Colbert, Director, of Horowhenua Energy Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

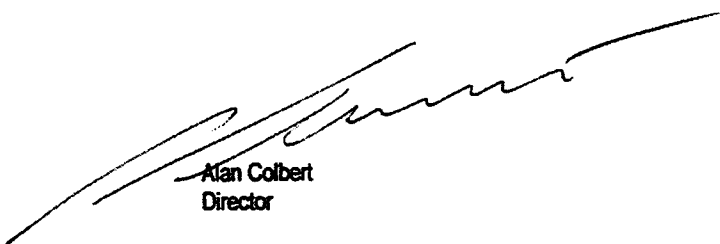
- a) The attached audited financial statements of Horowhenua Energy Limited, prepared for the purposes of Regulation 6 of the Electricity (Information Disclosure) Regulations 1994, give a true and fair view of the matters to which they relate and comply with the requirements of those regulations, and
- b) The attached information, being financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics and reliability performance measures in relation to Horowhenua Energy Limited and having been prepared for the purposes of Regulations 13,14, 15 and 16 of the Electricity (Information Disclosure) Regulations 1994, comply with the requirements of the Electricity (Information Disclosure) Regulations 1994.

The valuation on which those financial performance measures are based are as at 31 March 1996.

The valuation on which those financial performance measures are based are as at 31 March 1996.



Warren Thessman
Chairman



Alan Colbert
Director

Dated this 26 day of July 1996

DIRECTORY

DIRECTORS

W R Thessman (Chairman)
A T Colbert
P A T Hamid
P F McKelvey
P R Stannard

EXECUTIVES

R A Steele (Chief Executive)
J L Yeoman (Co Secretary)
T L Young (General Manager)

POSTAL ADDRESS

Box 244
LEVIN
Telephone 06 368 6119
04 298 6059
Fax 06 368 8472

REGISTERED OFFICE

Horowhenua Energy Limited
Cnr Salisbury and Durham Streets
LEVIN

AUDITOR

Audit New Zealand
Wellington

BANKERS

Bank of New Zealand

On behalf of the Controller and Auditor General

SOLICITORS

Bell Gully Buddle Weir, Wellington
Todd Whitehouse, Levin



