

# New Zealand Gazette

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## HOROWHENUA ENERGY LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION  
DISCLOSURE) REGULATIONS 1994

**Horowhenua Energy Limited**  
**Line and Energy Businesses**

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**ANNUAL REPORT**

*for the year ended*

**31 March 1997**

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

**Auditor's Report on Financial Statements**

**Statements of Financial Performance**

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# Statement of financial performance

*for the year ended 31 March 1997*

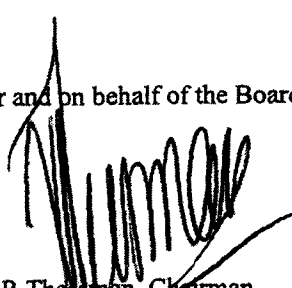
	Note	Line		Energy	
		1997 \$000	1996 \$000	1997 \$000	1996 \$000
Sales revenue		20,729	18,024	16,880	17,364
Net profit before taxation		22	100	1	297
Taxation		-	-	-	-
Net profit after taxation		22	100	1	297
Retained earnings at beginning of year		(544)	(551)	407	110
Total available for appropriation		(522)	(451)	408	407
Provision for Dividends	2	(216)	(93)	-	-
Retained earnings at end of year		\$(738)	\$(544)	\$408	\$407

# Statement of financial position

as at 31 March 1997

	Note	Line		Energy	
		1997 \$000	1996 \$000	1997 \$000	1996 \$000
Shareholders' funds		58,543	51,617	205	1,081
Deferred maintenance	4	613	1,169	-	-
Current liabilities					
Accounts payable and accruals	3	7,184	5,764	1,332	1,518
Current portion of deferred maintenance	4	411	441	-	-
Other provisions		378	371	-	-
		7,973	6,576	1,332	1,518
		<b>\$67,129</b>	<b>\$59,362</b>	<b>\$1,537</b>	<b>\$2,599</b>
Fixed assets	5	60,633	54,470	126	103
Current assets					
Cash		4,703	3,730	-	-
Receivables and Accruals	6	1,793	1,162	1,411	2,496
		6,496	4,892	1,411	2,496
		<b>\$67,129</b>	<b>\$59,362</b>	<b>\$1,537</b>	<b>\$2,599</b>

For and on behalf of the Board

  
W R Theissman, Chairman  
30 May 1997

  
P A T Hamid, Director

*The accompanying notes from part of these financial statements.*

# Notes to the financial statement

for the year ended 31 March 1997

## 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 1996 to 31 March 1997.

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 electricity 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 fixed 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:

1. Freehold land and buildings
2. Network assets
3. Plant and equipment
4. Vehicles
5. Capital work in progress

The Company uses Optimised Deprival Value ("ODV") methodology in valuing network assets. This methodology recognises the economic value of network assets based on the earnings of segments of the network to the Company. The ODV of network assets is updated every two years to reflect network extensions and the earnings derived. The ODV was updated at 31 March, 1997 and the result reflected in these financial statements.

All fixed assets, excluding land and infrastructure assets, are recorded at cost or valuation less accumulated depreciation.

Freehold land is stated at market valuation (refer note 5).

#### b) Infrastructure asset

Infrastructure assets consist of the individual asset components which form the Company's electricity network, excluding zone substations.

The Company uses infrastructure accounting methods which recognise that well planned maintenance of the network assets preserves the service potential of the infrastructure asset for the foreseeable future. Accordingly no depreciation is charged on the infrastructure.

The level of maintenance required to preserve the service potential of the infrastructure asset is determined by a detailed asset management plan.

#### *c) Depreciation*

Depreciation is provided on non infrastructure assets using either a diminishing value (DV), or straight line (SL) basis on all tangible fixed assets other than 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 unexpired 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

#### *d) Receivables*

Receivables are stated at their estimated realisable value.

#### *e) 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.

#### *f) Financial Instruments*

The Company has various financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in electricity spot market prices. While these financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The Company has entered into electricity price hedging contracts with electricity generators in order to minimise the risk of price fluctuations on the electricity spot market. Assets, liabilities, and any unrealised revenues and expenses associated with these instruments as at balance date are not recognised in the financial statements. Realised revenues and expenses are recognised in the statement of financial performance on maturity of the hedging contracts and are incorporated as part of the cost of wholesale electricity.

Full disclosure of information about electricity price hedging contracts to which the Company is a party is provide on note 7.

#### *g) Changes in Accounting Policies*

There have been no changes in accounting policies during the year.

## 2. Dividends

	Line		Energy	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000
Proposed Dividends	216	93	-	-

## 3. Accounts payable

*and accruals*

	Line		Energy	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000
TransPower, ECNZ, PowerBuy	487	1,189	1,332	1,518
Other Trade Creditors	1,829	2,698	-	-
Inter-Company payables	1,152	422	-	-
Accruals and provisions	3,566	1,301	-	-
Electricity deposits	150	154	-	-
	<b>\$7,184</b>	<b>\$5,764</b>	<b>\$1,332</b>	<b>\$1,518</b>

## 4. Deferred maintenance

	Line	
	1997 \$000	1996 \$000
Balance of the provision at the beginning of year	1,610	2,000
Less expenditure during the year	586	390
	1,024	1,610
Less current portion of deferred maintenance	411	441
Balance of the provision at the end of the year	613	1,169

Deferred maintenance is the amount of expenditure required to bring the infrastructure asset up to its required level of service potential.



## 5. Fixed assets

	Line		Energy	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000
Freehold land	270	336	-	-
Freehold buildings	704	638	-	-
Accumulated depreciation	74	89	-	-
	630	549	-	-
Distribution assets	51,894	49,106	-	-
Plant and Equipment	6,678	4,139	163	128
Accumulated depreciation	2,664	1,979	58	36
	4,014	2,160	105	92
Vehicles	331	340	28	25
Accumulated depreciation	108	120	7	14
	223	220	21	11
Capital assets in progress	3,602	2,099	-	-
<b>Total Fixed Assets</b>	<b>\$60,633</b>	<b>\$54,470</b>	<b>\$126</b>	<b>\$103</b>

Freehold land is stated at market valuation of \$270,000 as at 31 March 1995 by Darroch & Co (registered valuers). The valuations are carried out on a 3 yearly basis, the next one is due 31 March 1998.

The Optimised Deprival Value (ODV) of the network was assessed by KPMG Peat Marwick as at 31 March 1997. Their report places an ODV on network assets of \$56.36 million.

## 6. Receivables and prepayments

	Line		Energy	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000
Trade debtors	1,858	1,184	1,511	2,596
Inter-Company receivables	21	26	-	-
Prepayments	14	52	-	-
	1,893	1,262	1,511	2,596
less Provision for doubtful debts	100	100	100	100
	<b>\$1,793</b>	<b>\$1,162</b>	<b>\$1,411</b>	<b>\$2,496</b>

## 7. Financial instruments

### Credit risk

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

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 1997 \$000	Energy 1997 \$000
Bank Balances	4,703	-
Receivables	1,793	1,411

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. Exposure with any one financial institution is restricted in accordance with company policy.

### Credit facilities

The Company has total banking facilities of \$9,700,000 (1996: \$7,200,000).

### Electricity Hedge Contracts

#### *Revenue - electricity price hedging contracts*

The Company has entered into an electricity price hedge with a generator. Under this agreement the company agrees a fixed price for around \$8.4 million of its electricity needs over the next 3 years. The Company also has arrangements to purchase electricity from an associate company which holds hedge contracts. These contracts do not directly expose the Company to hedge risk. The Company's policy is not to enter any speculative position in relation to electricity hedge pricing contracts.

On maturity of the electricity price hedges any difference between the hedge price and the spot market price is settled between the parties. Settlement occurs irrespective of the amount of electricity actually supplied. If the spot market price is greater than the hedge price the electricity generator must settle the difference with the Company. Conversely if the spot market price is less than the hedge price, the Company must settle the difference with the electricity generator.

#### *Credit risk - electricity price hedging contracts*

With respect to electricity price hedges, the Company's exposure is on any potential difference between the spot price and the hedge price, where on maturity of these agreements the spot price is greater than the hedge price. The Company does not anticipate any non-performance of any obligations which may exist on maturity of these agreements.

#### *Fair value - electricity price hedging contracts*

The fair value of electricity price hedging contracts can vary from day to day as the spot market price for electricity varies. As at balance date the secondary market measure for electricity price hedging contracts was not sufficiently active in order to obtain a reliable measure of the fair value of the Company's hedging contracts. On maturity of these agreements there is potentially an asset or liability in relation to the electricity price hedges which has not been recognised in the financial statements.

### Fair values

There were no differences between the fair value and carrying amounts of financial instruments as at 31 March 1997.

## **8. Contingent liabilities**

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- a) The company has entered into an underwriting agreement with an associate, PowerBuy Group Limited. The underwriting requires the injection of equity capital into PowerBuy Group Limited in the event this is required as a result of trading losses incurred by that Company in the wholesale electricity market. The requirement is on a several basis with other shareholders of PowerBuy Group Limited and the maximum amount that Electra may be called upon under the underwriting is \$2,557,824 (1996 \$2,557,824). This is based on the shareholding held by Electra in PowerBuy Group Limited at balance date.
- b) On 15 April 1997 the company gave a letter of guarantee for payments in the NZ Wholesale Electricity Market. The guarantee, which is several, provides assurance of payment by the Company via PowerBuy Group Limited, to the Wholesale Electricity Market. The amount of the guarantee is \$1.62 million and expires on 30 September, 1997.
- c) 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 action 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.

## **9. Commitments**

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### **Capital commitments**

At balance date, estimated expenditure contracted for and approved by the Company totalled \$112,270 (1996: \$986,000).

## **10. Transactions with related parties**

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During the year Horowhenua Energy Limited purchased construction and maintenance services from a subsidiary, Linework Limited, to an amount of \$4.79 million (1996: \$2.63 million).

During the year the Company purchased all its electricity requirements through PowerBuy Limited, an associate company. Total purchases for the year amounted to \$15.89 million (1996 \$15.90 million). In addition, a management fee of \$60,202 (1996 \$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 Lines Business

for the year ended 31 March 1997

## 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

Rates of return for the Line Business are as follows:

	1997	1996	1995
<i>Before Discount</i>			
Accounting return on total assets (ODV value)	10.07%	5.12%	3.80%
Accounting return on equity (ODV value)	10.67%	7.19%	6.98%
Accounting rate of profit (on ODV valuation)	11.70%	5.95%	3.80%
<i>After Discount</i>			
Accounting return on total assets (ODV value)	0.03%	0.17%	0.18%
Accounting return on equity (ODV value)	0.04%	0.25%	0.33%
Accounting rate of profit (on ODV valuation)	0.04%	0.36%	0.18%

## Efficiency

*performance measures*

	1997	1996	1995
Direct line costs per kilometre (including infrastructure maintenance costs) (as defined in the Electricity Regulations 1994 First Schedule)	\$1,519	\$1,331	-
Direct line costs per kilometre (excluding infrastructure maintenance costs)	\$964	\$846	\$1,189
In-direct line costs per electricity customer	\$95	\$99	\$121

## Energy delivery

*performance measures*

	1997	1996	1995
Load factor	54.83%	53.39%	52.25%
Loss ratio	6.94%	6.58%	7.57%
Capacity utilisation	27.82%	28.21%	28.49%

## Statistics

	1997	1996	1995
System Lengths (km's) (overhead)			
33kV	156	156	156
11kV	808	806	801
400v	503	503	503
<b>Total</b>	<b>1,467</b>	<b>1,465</b>	<b>1,460</b>

	1997	1996	1995
System Lengths (km's) (underground)			
33kV	10	1	1
11kV	145	141	140
400v	302	296	292
<b>Total</b>	<b>457</b>	<b>438</b>	<b>433</b>

<b>Total Overhead and Underground</b>	<b>1,924</b>	<b>1,903</b>	<b>1,893</b>
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	1997	1996	1995
Transformer capacity kVA	261,478	260,178	261,183
Maximum demand kW	72,750	73,400	74,420
Total electricity supplied from system kWh	325,191,360	320,697,000	308,786,996
Electricity on behalf of other entities	5,931,780	-	-
Total Customers	35,288	34,827	34,265

### Total interruptions

	1997	1996	1995
Class A	-	-	-
Class B	147	176	129
Class C	165	185	167
Class D	-	7	3
Class E	-	-	-
Class F	-	-	-
Class G	-	-	-
<b>Total</b>	<b>312</b>	<b>368</b>	<b>299</b>

**SAIDI**

	1997	1996	1995
Class A	-	-	-
Class B	39	60.7	38.0
Class C	76.5	109.0	132.8
Class D	-	13.3	33.5
Class E	-	-	-
Class F	-	-	-
Class G	-	-	-
<b>Total</b>	<b>115.5</b>	<b>183</b>	<b>204.3</b>

**SAIFI**

	1997	1996	1995
Class A	-	-	-
Class B	0.3	0.5	0.3
Class C	3.17	3.6	3.0
Class D	-	1.0	0.6
Class E	-	-	-
Class F	-	-	-
Class G	-	-	-
<b>Total</b>	<b>3.47</b>	<b>5.1</b>	<b>3.9</b>

**CAIDI**

	1997	1996	1995
Class A	-	-	-
Class B	130.0	122.1	121.1
Class C	24.13	61.3	43.8
Class D	-	40.0	55.8
Class E	-	-	-
Class F	-	-	-
Class G	-	-	-
<b>Total</b>	<b>33.29</b>	<b>35.9</b>	<b>52.4</b>

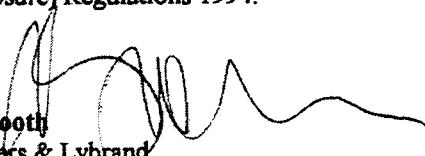
**Number of Faults per 100 Circuit  
Kilometre**

	1997	1996	1995
Overhead			
33kV	7.05	11.5	8.3
11kV	17.7	19.9	18.2
<b>Total Overhead</b>	<b>24.75</b>	<b>31.4</b>	<b>26.5</b>
Underground			
33kV	0	0.0	0.0
11kV	14.5	9.9	5.7
<b>Total Underground</b>	<b>14.5</b>	<b>9.9</b>	<b>5.7</b>
<b>Overall Total</b>	<b>39.25</b>	<b>41.3</b>	<b>32.2</b>

**Coopers  
& Lybrand**chartered accountants  
and business advisersPO Box 648  
Civic Centre  
The Square  
Palmerston North  
New Zealandtelephone 0-6-358 4033  
facsimile 0-6-358 6163**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS**

We have examined the attached financial statements prepared by Horowhenua Energy Limited and dated 30 May 1997 for the purposes of Regulation 6 of the Electricity (Information Disclosure) Regulations 1994.

We hereby certify that, having made all reasonable enquiry, to the best of our 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.



**I R Booth**  
Coopers & Lybrand  
On behalf of the Controller and Auditor-General  
Palmerston North, New Zealand

30 May 1997


**CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS**

We have examined the attached information, being -

- (a) Financial performance measures specified in clause 1 of Part II of the First Schedule to the Electricity (Information Disclosure) Regulations 1994; and
- (b) Financial components of the efficiency performance measures specified in clause 2 of Part II of that Schedule, -

and having been prepared by Horowhenua Energy Limited and dated 30 May 1997 for the purposes of regulation 13 of those regulations.

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



**I R Booth**  
Coopers & Lybrand  
On behalf of the Controller and Auditor-General  
Palmerston North, New Zealand

30 May 1997

# ODV valuation

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The Optimised Deprival Value (ODV) of the network was assessed by KPMG Peat Marwick as at 31 March 1997. This report placed an ODV on network assets of \$56.36 million.

## CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION

### HOROWHENUA ELECTRICITY LIMITED TRADING AS ELECTRA

We have examined the valuation report prepared by KPMG and dated 21 April 1997, which report contains valuations as at 31 March 1997.

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



**KPMG**

22 April 1997



# Director's certificate

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

We, Warren Thessman, Chairman, and Piers Hamid, 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 in which those financial performance measures are based are as at 31 March 1997.



Warren Thessman  
Chairman



Piers Hamid  
Director

Dated this 30<sup>th</sup> day of May 1997

# Directory

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## Directors

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

## Executives

R A Steele (Chief Executive)  
 J L Yeoman (Co Secretary)

## Registered office

Horowhenua Energy Limited  
 Cnr Salisbury and Durham Streets  
 LEVIN

## Postal address

P O Box 244  
 LEVIN

Telephone 06 368 6119

04 298 6059

Fax 06 368 8472

## Auditor

Coopers and Lybrand  
 Palmerston North  
 On behalf of the Controller and Auditor General

## Bankers

Bank of New Zealand

## Solicitors

Bell Gully Buddle Weir, Wellington  
 Todd Whitehouse, Levin

