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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

ANNUAL REPORT

for the year ended

31 March 1998

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

Index

Statement of financial performance

Statement of financial position

Notes to the financial statements

Financial and efficiency performance measures

Auditors Report

ODV Valuation

Directors Certificate

Directory

All values in this report are in thousands (000's) of New Zealand dollars (rounded) and are for years ended 31 March unless otherwise stated.

"This year" means the year ended 31 March 1998

"Last year" means the year ended 31 March 1997

"Next year" means the year ending 31 March 1999

Statement of financial performance

	Note	Line		Energy	
		1998 \$000	1997 \$000	1998 \$000	1997 \$000
Sales revenue		21,108	20,729	17,282	16,880
Net profit before taxation		866	22	(185)	1
Taxation		-	-	-	-
Net profit after taxation		\$866	\$22	\$(185)	\$1


The accompanying notes form part of these financial statements

Statement of financial position

	Note	Line		Energy	
		1998 \$000	1997 \$000	1998 \$000	1997 \$000
Shareholders' funds		61,415	59,567	67	205
Current liabilities					
Accounts payable and accruals	3	5,826	7,184	1,326	1,332
Other provisions		200	378	-	-
		6,026	7,562	1,326	1,332
		\$67,441	\$67,129	\$1,393	\$1,537
Fixed assets	4	62,477	60,633	99	126
Current assets					
Cash		2,934	4,703	-	-
Receivables and Accruals	5	2,030	1,793	1,294	1,411
		4,964	6,496	1,294	1,411
		\$67,441	\$67,129	\$1,393	\$1,537

For and on behalf of the Board

W R Thessman
Chairman


P A T Hamid
Director

29 May 1998

The accompanying notes form part of these financial statements.

Notes to the financial statements

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 1997 to 31 March 1998.

These Financial Statements are prepared in accordance with Regulations 6(2) and 6(3) of the Electricity (Information Disclosure) Regulations 1994. These 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 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	25% 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 were no changes in accounting policy.

2. Dividends

	Line		Energy	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Proposed Dividends	\$110	\$216	-	-

3. Accounts payable and accruals

	Line		Energy	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
TransPower, ECNZ, RMB	377	487	1,326	1,332
Other Trade Creditors	945	1,829	-	-
Inter-Company payables	618	1,152	-	-
Accruals and provisions	3,718	3,566	-	-
Electricity deposits	168	150	-	-
	\$5,826	\$7,184	\$1,326	\$1,332

4. Fixed assets

	Line		Energy	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Freehold land	371	270	-	-
Freehold buildings	765	704	-	-
Accumulated depreciation	82	74	-	-
	683	630	-	-
Distribution assets	55,460	51,894	-	-
Plant and Equipment	7,209	6,678	176	163
Accumulated depreciation	3,589	2,664	93	58
	3,620	4,014	83	105
Vehicles	339	331	28	28
Accumulated depreciation	126	108	12	7
	213	223	16	21
Capital assets in progress	2,130	3,602	-	-
Total Fixed Assets	\$62,477	\$60,633	\$99	\$126

Freehold land is stated at market valuation of \$371,000 as at 31 March 1998. The valuations are carried out on a 3 yearly basis, the next one is due 31 March 2001.

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.

5. Receivables and prepayments

	Line		Energy	
	1998 \$000	1997 \$000	1998 \$000	1997 \$000
Trade debtors	1,887	1,858	1,394	1,511
Inter-Company receivables	220	21	-	-
Prepayments	23	14	-	-
	2,130	1,893	1,394	1,511
less Provision for doubtful debts	100	100	100	100
	\$2,030	\$1,793	\$1,294	\$1,411

6. 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 1998 \$000	Energy 1998 \$000
Bank Balances	2,934	-
Receivables	2,030	1,294

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.

Fair values

There were no differences between the fair value and carrying amounts of financial instruments as at 31 March 1998.

Electricity Hedge Contracts

Revenue - electricity price hedging contracts

The Company has entered into electricity price hedges with a number of generators. Under these agreements the company agrees a fixed price for around \$45.7 million of its electricity needs over the next four years. The Company's policy is not to enter into 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 such that the fair value of the Company's hedging contracts could not be determined with sufficient certainty. Hence fair values cannot be calculated for these contracts.

7. Contingent liabilities

- a) NZ Wholesale Electricity Market holds a letter of guarantee from the company's bankers for payments. The guarantee provides assurance of payment by the Company to the Wholesale Electricity Market. The amount of guarantee is \$3.21 million (1997 - \$1.62 million).
- b) 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 1998 and 1997 there was legal action being taken against the former Horowhenua Electric Power Board that remains unresolved. The directors have been advised that the Company has good defence against the action being taken against it and that no provision for loss is required in the financial statements.
- c) The Group has not fully provided for a liability to some employees which would be payable on their retirement upon reaching the age of 65. The Group begins providing for this liability when the employees concerned attain 50 years of age.

8. Commitments

Capital commitments

At balance date, there was no un-accrued expenditure contracted for and approved by the Group (1997 - \$112,270).

At balance date the company was committed to taking up a 50% interest in the share capital of Javelin Limited at an amount of \$700,000. This is to be met mainly by the transfer to Javelin Limited of assets recorded in Fixed Assets held by Horowhenua Energy Limited at balance date.

9. Transactions with related parties

During part of the year the Company purchased some of its electricity requirements through PowerBuy Group Limited, associate company, prior to the sale of the investment in that company. Total purchases and fees amounted to \$10.76 million (1997 - \$15.89 million).

During the year the Company purchased construction and maintenance services from a subsidiary, Linework Limited, to an amount of \$4.55 million (1997: \$4.79 million).

During the year, and in the normal course of business, Horowhenua Energy Limited engaged in services from PA Consulting, a company in which former director Mr P R Stannard is a management consultant; services from Kerslake and Partners, a firm where director Mr W R Thessman is a partner; and goods from Pre-Cast Components Ltd, a company in which director Mr P A T Hamid is a director. These purchases account for 0.16% (1997 - 0.08%) of total group purchases. The amount outstanding at year end was \$3,200 (1997 - \$10,688) which is payable on normal trading terms.

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

Financial and efficiency performance measures for the Line and Energy Business

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 these disclosure are 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 is not intended for any other purpose.

Financial Measures

Rates of return for the Line Business are as follows:

	1998	1997	1996	1995
<i>Before Discount</i>				
Accounting return on total assets (ODV value)	11.86%	11.29%	5.12%	3.80%
Accounting return on equity (ODV value)	11.86%	11.29%	7.19%	6.98%
Accounting rate of profit (on ODV valuation)	25.25%	14.57%	5.95%	3.80%
<i>After Discount</i>				
Accounting return on total assets (ODV value)	1.35%	0.40%	0.17%	0.18%
Accounting return on equity (ODV value)	1.35%	0.40%	0.25%	0.33%
Accounting rate of profit (on ODV valuation)	14.08%	3.50%	0.36%	0.18%

The performance measures above take into account changes from an ODV valuation as at 1st April 1998. However, the change in the ODV has not been reflected in the financial statements.

The Accounting rate of profit without the ODV revaluation is 11.86% before discount and 1.35% after discount.

Efficiency performance measures

	1998	1997	1996	1995
Direct line costs per kilometre <i>(incl infrastructure maintenance costs)</i>	\$1,317	\$1,519	\$1,331	\$1,189
Direct line costs per kilometre <i>(excl infrastructure maintenance costs)</i>	\$1,042	\$964	\$846	\$1,189
In-direct line costs per electricity customer	\$92	\$95	\$99	\$121

Energy delivery performance measures

	1998	1997	1996	1995
Load factor	55.61%	54.83%	53.39%	52.25%
Loss ratio	6.78%	6.94%	6.58%	7.57%
Capacity utilisation	27.80%	27.82%	28.21%	28.49%

Statistics

	1998	1997	1996	1995
System Lengths (km's) (overhead)				
33kV	156	156	156	156
11kV	811	808	806	801
400v	504	503	503	503
Total	1,471	1,467	1,465	1,460
System Lengths (km's) (underground)				
33kV	14	10	1	1
11kV	147	145	141	140
400v	311	302	296	292
Total	472	457	438	433
Total Overhead and Underground	1,943	1,924	1,903	1,893

	1998	1997	1996	1995
System Lengths (km's) (total)				
33kV	170	166	157	157
11kV	958	953	947	941
400v	815	805	799	795
Total	1,943	1,924	1,903	1,893

	1998	1997	1996	1995
Transformer capacity kVA	262,352	261,478	260,178	261,183
Maximum demand kW	72,944	72,750	73,400	74,420
Total electricity supplied from system kWh	331,261,170	325,191,360	320,697,000	308,786,996
Electricity on behalf of other entities	4,513,864	5,931,780	-	-
Total Customers	35,713	35,288	34,827	34,265

Total interruptions

	1998	1997	1996	1995
Class A	-	-	-	-
Class B	141	147	176	129
Class C	82	165	185	167
Class D	2	-	7	3
Class E	-	-	-	-
Class F	-	-	-	-
Class G	-	-	-	-
Total	225	312	368	299

SAIDI

	1998	1997	1996	1995
Class A	-	-	-	-
Class B	34.2	39	60.7	38.0
Class C	59.6	76.5	109.0	132.8
Class D	4.4	-	13.3	33.5
Class E	-	-	-	-
Class F	-	-	-	-
Class G	-	-	-	-
Total	98.2	115.5	183	204.3

Horowhenua Energy Limited Line and Energy Businesses - Annual Report 1998

SAIFI

	1998	1997	1996	1995
Class A	-	-	-	-
Class B	0.33	0.3	0.5	0.3
Class C	1.97	3.17	3.6	3.0
Class D	0.40	-	1.0	0.6
Class E	-	-	-	-
Class F	-	-	-	-
Class G	-	-	-	-
Total	2.70	3.47	5.1	3.9

CAIDI

	1998	1997	1996	1995
Class A	-	-	-	-
Class B	103.6	130.0	122.1	121.1
Class C	0.2	24.13	61.3	43.8
Class D	11	-	40.0	55.8
Class E	-	-	-	-
Class F	-	-	-	-
Class G	-	-	-	-
Total	36.4	33.29	35.9	52.4

Number of Faults per 100 Circuit Kilometre

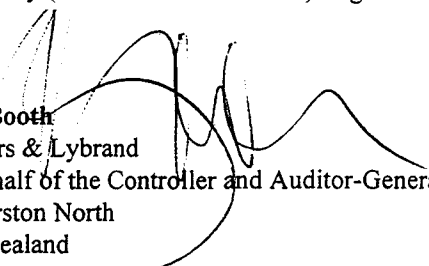
	1998	1997	1996	1995
Overhead				
33kV	3.2	7.05	11.5	8.3
11kV	9.0	17.7	19.9	18.2
Total Overhead	12.2	24.75	31.4	26.5
Underground				
33kV	0.0	-	-	-
11kV	4.1	13.55	9.9	5.7
Total Underground	4.1	14.5	9.9	5.7
Total	16.3	39.25	41.3	32.2

Auditor's report on financial statements and performance measures

CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS

I have examined the attached financial statements prepared by Horowhenua Energy Limited and dated 29 May 1998 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.



Ivan Booth
Coopers & Lybrand
On behalf of the Controller and Auditor-General
Palmerston North
New Zealand

29 May 1998

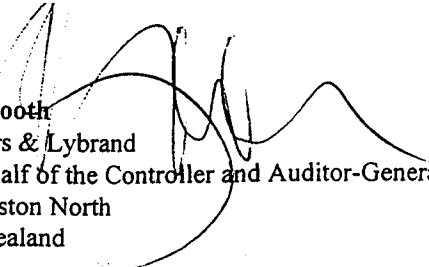
CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS

I 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 as set out on page 11, and
- b) Financial components of the efficiency performance measures specified in clause 2 of Part II of that Schedule, and set out on page 12

and having been prepared by Horowhenua Energy Limited and dated 29 May 1998 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.



Ivan Booth
Coopers & Lybrand
On behalf of the Controller and Auditor-General
Palmerston North
New Zealand

29 May 1998

ODV valuation

The Optimised Deprival Value (ODV) of the network was reassessed by KPMG Peat Marwick as at 31 March 1998. The performance measures in this report placed an ODV on the network assets at this date of \$65.30 million.

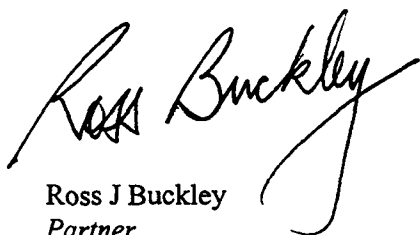
KPMG

CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION

Horowhenua Energy Limited
(trading as "Electra")

I have examined the valuation report prepared by KPMG and July 1998, which report contains valuations as at 31 March 1998.

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 J Buckley
Partner

10 August 1998

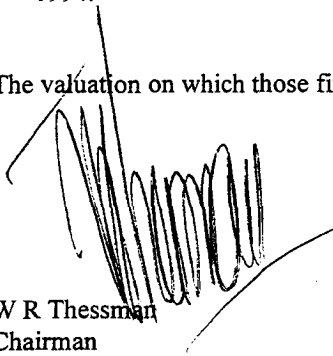
Directors' certificate

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 on which those financial performance measures are based are at 31 March 1998.



W R Thessman
Chairman



P A T Hamid
Director

Dated this 31 day of July 1998

Directory

Directors

W R Thessman (Chairperson)
A T Colbert
P A T Hamid
P F McKelvey
M H Devlin

Executives

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

Registered office

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LEVIN

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LEVIN

Telephone 0800 Electra
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Auditor

I R Booth
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



