



# New Zealand Gazette

OF THURSDAY, 30 NOVEMBER 2000

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WELLINGTON: MONDAY, 4 DECEMBER 2000 — ISSUE NO. 162

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## TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION  
DISCLOSURE) REGULATIONS 1999 AND THE  
ELECTRICITY (INFORMATION DISCLOSURE)  
AMENDMENT REGULATIONS 2000



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## Auditors' Report

### To the readers of the financial statements of Transpower New Zealand Limited's Lines Business

We have audited the accompanying financial statements of the Transpower New Zealand Limited's Lines Business. The financial statements provide information about the past financial performance of the Transpower New Zealand Limited's Lines Business. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

### Directors' responsibilities

The Electricity (Information Disclosure) Regulations 1999 require the Directors to prepare financial statements which give a true and fair view of the financial position of the Transpower New Zealand Limited's Lines Business as at 30 June 2000, and results of operations and cash flows for the year then ended.

### Auditors' responsibilities

It is the responsibility of the Audit Office to express an independent opinion on the financial statements presented by the Directors and report it to you.

### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Transpower New Zealand Limited's Lines Business's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carried out other assignments for the Transpower New Zealand and Group in the areas of taxation compliance, and other assurance services. Other than these assignments and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Transpower New Zealand Limited and Group. Other than in our capacity as auditor, we have no relationship with or interests in the Transpower New Zealand Limited's Lines Business.

### Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been maintained by the Transpower New Zealand Limited's Lines Business as far as appears from our examination of those records; and
- the financial statements referred to above:
  - comply with generally accepted accounting practice; and
  - give a true and fair view of the financial position of the Transpower New Zealand Limited's Lines Business as at 30 June 2000 and the results of its operations and cash flows for the year then ended; and
  - comply with the Electricity (Information Disclosure) Regulations 1999.

Our audit was completed on 24 November 2000 and our opinion is expressed as at that date.

Fred A Hutchings  
 On behalf of the Controller and Auditor General  
 Wellington, New Zealand

PricewaterhouseCoopers



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#### **Auditors' Opinion of Performance Measures**

We have examined the attached information, being:

- (a) the derivation table in Regulation 16; and
- (b) the annual ODV reconciliation report in Regulation 16A; and
- (c) the financial performance measures in clause 1 of part 3 of Schedule 1; and
- (d) the financial components of the efficiency performance measures in clause 2 of part 3 of Schedule 1

that were prepared by Transpower New Zealand Limited and dated 24 November 2000 for the purposes of Regulation 15 of the Electricity (Information Disclosure) Regulations 1999.

In our opinion, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1999.

A handwritten signature in black ink that reads "Fred Hutchings". The signature is written in a cursive, slightly slanted style.

Fred A Hutchings  
On behalf of the Controller and Auditor General  
Wellington, New Zealand  
24 November 2000

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers



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#### **Auditors' Opinion in Relation to Valuation**

We have examined the valuation report of Transpower New Zealand Limited and dated 29 November 2000, which contains valuations of system fixed assets as at 30 June 2000.

In our opinion, having made all reasonable enquiry, to the best of our knowledge, the valuations contained in the report, including the total valuation of system fixed assets of \$2,090,000,000, have been made in accordance with the ODV Handbook.

A handwritten signature in black ink that reads "Fred Hutchings". The signature is written in a cursive, slightly slanted style.

Fred A Hutchings  
On behalf of the Controller and Auditor General  
Wellington, New Zealand  
29 November 2000

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers

#### **Explanatory Note**

The ODV of Transpower New Zealand Limited's fixed assets as at 30 June 2000 was prepared by Transpower New Zealand Limited and independently reviewed by The LEK Partnership. The LEK Partnership have stated that in their opinion the process implemented by the valuation team is in accordance with the ODV handbook and is adequate to support a reasonable valuation. We have relied on this opinion and the technical expertise of The LEK Partnership for the purposes of our examination of the valuation report.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2000

		LINES BUSINESS 2000	LINES BUSINESS 1999
	Notes	\$000	\$000
Operating revenue	3	485,208	494,932
Operating expenses	4	252,248	247,864
		<u>232,960</u>	<u>247,068</u>
Net finance costs	6	95,677	96,344
Surplus from operations before tax and revaluation		137,283	150,724
Revaluation of fixed assets	14	54,096	(14,113)
Surplus from operations before tax		191,379	136,611
Tax expense	7	38,868	39,712
Operating surplus after tax		<u>152,511</u>	<u>96,899</u>
<b>Net surplus attributable to shareholders</b>		<u>152,511</u>	<u>96,899</u>

These statements are to be read in conjunction with the accompanying notes

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF MOVEMENTS IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2000

	Notes	LINES BUSINESS	LINES BUSINESS
		2000	1999
		\$000	\$000
Equity at the beginning of the year		874,277	907,069
Net surplus attributable to shareholders		152,511	96,899
Total recognised revenue and expenses for the year		152,511	96,899
Dividends paid or payable	15	(82,687)	(111,510)
Equity adjustment to comply with Electricity (Information Disclosure) Regulations 1999		-	(18,181)
<b>Equity at the end of the year</b>		<b>944,101</b>	<b>874,277</b>

These statements are to be read in conjunction with the accompanying notes

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2000

	Notes	LINES BUSINESS	LINES BUSINESS
		2000	1999
		\$000	\$000
<b>Assets Employed</b>			
Current assets	8	106,552	87,061
Fixed assets	9	2,193,227	2,193,947
<b>Total Tangible Assets</b>		<u>2,299,779</u>	<u>2,281,008</u>
<b>Funds Employed</b>			
<b>Liabilities</b>			
Current liabilities	10	311,462	244,174
Long term lease liabilities	11	-	-
Long term debt	12	1,044,216	1,162,557
<b>Total Liabilities</b>		<u>1,355,678</u>	<u>1,406,731</u>
<b>Equity</b>			
Capital	13	1,200,000	1,200,000
Reserves	14	8	8
Retained earnings	15	(255,907)	(325,731)
<b>Total Equity</b>		<u>944,101</u>	<u>874,277</u>
<b>Total Funds employed</b>		<u>2,299,779</u>	<u>2,281,008</u>

These statements are to be read in conjunction with the accompanying notes

For, and on behalf of, the Board



Sir Colin Maiden  
Chairman

23 November 2000



Director

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASHFLOWS  
FOR THE YEAR ENDED 30 JUNE 2000

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
<b>CASH FLOW FROM OPERATIONS</b>		
<b>Cash was provided from:</b>		
Receipts from customers	469,648	517,794
Tax received from subsidiaries	-	-
Dividends received from subsidiaries	-	-
Interest received	957	1,158
<b>Cash was applied to:</b>		
Payments to suppliers and employees	(130,542)	(178,411)
Tax payments	(45,759)	(34,579)
Interest paid	(100,179)	(95,235)
<b>Net cash flow from operations</b>	<u>194,125</u>	<u>210,727</u>
<b>CASH FLOW FROM INVESTMENTS</b>		
<b>Cash was provided from:</b>		
Sale of assets	1,467	586
Sale of shares in listed companies	-	-
Short term investments	135,097	309,198
<b>Cash was applied to:</b>		
Purchase of fixed assets	(60,550)	(46,125)
Short term investments	(135,097)	(304,130)
<b>Net cash flow (to)/from investments</b>	<u>(59,083)</u>	<u>(40,471)</u>
<b>CASH FLOW FROM FINANCING</b>		
<b>Cash was provided from:</b>		
Increase in loans	1,077,625	1,874,604
<b>Cash was applied to:</b>		
Dividends paid	(103,177)	(80,955)
Repayment of loans	(1,110,714)	(1,960,545)
<b>Net cash flow (to)/from financing</b>	<u>(136,266)</u>	<u>(166,896)</u>
Net increase/(decrease) in cash held	(1,224)	3,360
Opening balance brought forward	(467)	(3,827)
<b>Closing net cash carried forward</b>	<u>(1,691)</u>	<u>(467)</u>
<b>Closing net cash carried forward comprises:</b>		
Bank overdraft	(1,714)	(517)
Cash and bank	23	50
	<u>(1,691)</u>	<u>(467)</u>

These statements are to be read in conjunction with the accompanying notes



## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF CASHFLOWS (Cont.)  
FOR THE YEAR ENDED 30 JUNE 2000

## Reconciliation Of "Operating Surplus After Tax" With "Net Cash Flow From Operations"

	LINES BUSINESS	LINES BUSINESS
	2000	1999
	\$000	\$000
<b>Operating surplus after tax</b>	152,511	96,899
<b>Add/(deduct) non-cash items:</b>		
Depreciation	87,647	91,597
Infrastructure asset service potential adjustment	18,957	14,139
Transfer from revaluation reserve	(54,096)	14,113
Capitalised Interest	(1,911)	(720)
Increase(decrease) in provisions	(181)	(7,912)
<b>Other movements in working capital items:</b>		
Decrease(increase) in trade and other receivables	(16,869)	26,484
Decrease(increase) in prepayments	116	614
Decrease(increase) in stocks of materials	1,578	(375)
(Decrease)increase in trade and other liabilities, interest payable and deferred income	4,029	(37,367)
(Decrease)increase in taxation payable	(6,891)	5,132
<b>Add/(deduct) items classified as investing activities:</b>		
Fixed asset write-offs and loss on sale	9,235	8,123
<b>Net Cash Flow from Operations</b>	<u>194,125</u>	<u>210,727</u>

These statements are to be read in conjunction with the accompanying notes

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 1. STATEMENT OF ACCOUNTING POLICIES

**Reporting Entity**

These financial statements are for the reporting entity of Transpower New Zealand Limited's Line Business (The Transpower Lines Business).

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986, the Financial Reporting Act 1993 and the Electricity (Information Disclosure) Regulations 1999 as amended by the Electricity (Information Disclosure) Amendment Regulations 2000.

The Electricity Information Disclosure Handbook has been followed in the preparation of these financial statements.

**Measurement Base**

The measurement basis is historical cost except as modified by the revaluation of certain assets and investments.

The avoidable cost allocation methodology is used for allocating costs and assets and liabilities between the Lines business and Other businesses.

**Accounting Policies**

The following accounting policies have been applied:

**(a) Principles of Consolidation**

The Transpower Lines Business financial statements are prepared from the financial statements of Transpower and its subsidiaries which undertake lines business activities, as at 30 June 2000. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

**(b) Revenue**

Revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by the Transpower Lines Business for transmission services, and lease revenue. Dividends received and interest income from investments are included within net finance costs.

**(c) Goods and Services Tax (GST)**

The Statements of Financial Performance and the Statements of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statements of Financial Position are stated net of GST with the exception of receivables and payables which include GST invoiced.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000**(d) Current Assets**

Receivables are stated at their estimated net realisable value.

Short term investments are recorded at their original cost which is adjusted for the amortisation of premiums and accrual of discounts to maturity.

Stocks of materials are valued at the lower of cost, calculated on the weighted average cost basis, or estimated net realisable value.

**(e) Investments**

Investments in subsidiaries are recorded at net tangible asset value. Other investments are recorded at the lower of cost or net realisable value.

**(f) Fixed Assets****Modified Historical Cost Measurement**

Fixed assets are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out each year by, or under the guidance of, independent experts using the optimised deprival valuation (ODV) methodology.

Under modified historical cost, an asset revaluation, which reflects the difference between the net carrying value of the assets and the ODV value, is recorded in the asset revaluation reserve. The net carrying value is determined after writing any accumulated depreciation or infrastructure asset service potential adjustment back against the asset value.

Upon the disposal or write-off of a non-infrastructure asset the revaluation increment or decrement relevant to that asset is transferred from the revaluation reserve to retained earnings.

The physical disposal or write off of individual component assets that form the infrastructure asset is only recognised in the financial statements where the operating capability of the infrastructure asset has decreased.

**Capital Work in Progress**

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the fixed assets to their location and condition. Finance costs incurred during the period of time that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost for capital work in progress.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000*(f) Fixed Assets (cont.)*

The finance costs capitalised are based on the actual costs directly attributable to the construction of the asset. Where this is not clearly identifiable, Transpower's weighted average cost of capital is used.

Assets are transferred from capital work in progress to fixed assets as they become operational and available for use.

*(g) Infrastructure Asset*

The infrastructure accounting methodology is applied to the infrastructure asset. The infrastructure asset consists of the individual asset components that form the network of transmission lines comprising the National Grid. These individual components are regarded together as a single asset. All other assets are classified as non-infrastructure assets.

It is the Transpower Lines Business's intention to maintain the operating capability of the transmission line network into the foreseeable future.

Operating capability refers to the output of service of the infrastructure asset at a point in time and is determined by reference to attributes such as physical output capacity, associated operating costs and quality of output.

Transpower's asset management practices result in the infrastructure asset having an extremely long life. Having regard to the life and residual value of the infrastructure asset the Directors consider that the depreciation of the asset is immaterial. Accordingly, no depreciation is charged on the infrastructure asset.

Expenditure incurred to maintain the operating capability of the infrastructure asset is treated as an expense in the Statement of Financial Performance. This treatment differs from standard accounting for fixed assets which allocates the cost of the asset over its estimated economic life and capitalises any expenditure that extends the asset's life.

Expenditure on the infrastructure asset that enhances or develops the operating capability of the asset is capitalised.

Service potential refers to the ability of the asset to provide a satisfactory level of operating capability into the future. If, in any year, the level of expenditure required to maintain the operating capability of the infrastructure asset is insufficient to preserve the service potential of the asset, the net book value of the infrastructure asset is reduced and the Statements of Financial Performance are charged with this shortfall. This is called the infrastructure asset service potential adjustment. Expenditure in subsequent periods to redress this shortfall and bring the infrastructure asset back to the requisite level of service potential increases the net book value of the infrastructure asset.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000**(h) Depreciation**

Depreciation of non-infrastructure fixed assets is calculated using the straight line method to allocate the cost or valuation of the fixed assets over their expected useful lives, after due allowance for their expected residual value. The estimated economic lives are as follows:

Freehold buildings	20-25 years
Substations	25-55 years
HVDC link	30 years
HVDC leased assets	30 years
Communications	10-25 years
Administration assets	3-10 years

**(i) Leased Assets**

The Transpower Lines Business leases certain plant, equipment, land and buildings.

Finance leases effectively transfer substantially all of the risks and benefits incidental to the ownership of the leased item to the entity. Assets acquired by means of a finance lease are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. Leased assets are depreciated over their economic lives. A corresponding liability is also established at the inception of each lease and each lease payment is allocated between the liability and finance costs.

Under operating leases all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the Statements of Financial Performance as expenses, in the period in which they are incurred.

**(j) Statements of Cash Flows**

The following are the definitions of the terms used in the Statements of Cash Flows:

- (i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- (ii) Operating activities comprise the transmission of bulk electricity, and the related support, maintenance, administration and interest costs.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000*(j) Statements of Cash Flows (cont.)*

- (iii) Investing activities comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- (iv) Financing activities include changes in equity, borrowings and dividends paid on equity. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

*(k) Taxation*

The Transpower Lines Business follows the liability method of accounting for deferred tax applied on a partial basis.

The tax expense charged against the surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences plus any adjustments arising from prior years.

The partial basis considers the cumulative income tax effect of all timing differences. The income tax effect of timing differences is only recognised as deferred tax for those timing differences that can be expected to reverse in the foreseeable future.

Under the application of this method, timing differences that are not recognised in the Statements of Financial Position are disclosed in Note 7.

Future tax benefits attributable to losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the losses will be utilised.

*(l) Foreign Currencies*

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Monetary assets and liabilities at balance date are translated at exchange rates current at balance date. Where transactions are hedged they are translated at the hedge rate.

Gains and losses due to currency fluctuations on foreign currency receivables and payables are included in the Statements of Financial Performance. Gains or losses from exchange rate fluctuations do not arise in respect of hedged foreign currency borrowings.

Exchange differences and associated costs on hedging transactions undertaken to establish the price of a particular purchase, are deferred and are included in the measurement of the purchase transaction as at the transaction date.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000*(m) Financial Instruments*

Derivative financial instruments including foreign exchange contracts, forward rate agreements, foreign exchange options, cross currency interest rate swaps, interest rate swaps and interest rate options are entered into for the purpose of reducing exposure to fluctuations in interest rates and foreign exchange rates. While these financial instruments are subject to the risk that market rates will change subsequent to acquisition, such changes would generally be offset by an opposite effect on the items being hedged.

For interest rate swaps, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest or expense over the life of the swap. Premiums paid on interest rate options are amortised over the period to maturity. The settlement cash flows on the maturity of forward rate agreements are amortised over the period of the underlying asset or liability that the financial instrument is hedging.

Foreign exchange contracts and cross currency interest rate swaps entered into as hedges of foreign currency assets and liabilities are valued at exchange rates prevailing at balance date. Any unrealised gains and losses are offset against foreign currency gains or losses on the related asset or liability.

Additional information about financial instruments to which the Transpower Lines Business is a party is provided in Note 21.

*(n) Reclassifications*

Certain reclassifications of prior year balances have been made to conform with current year classifications.

**Changes in Accounting Policies**

There have been no changes in accounting policies and all policies have been applied on a basis consistent with those used in previous periods, except for those required by the Electricity (Information Disclosure) Amendment Regulations 2000.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000**2. RELATED PARTY**

As a State Owned Enterprise, shares in Transpower are held by the shareholding ministers on behalf of the Crown. Related party transactions have been entered into with other State Owned Enterprises, principally Electricity Corporation of New Zealand Group (ECNZ), Mighty River Power Limited, Genesis Power Limited, Meridian Energy Limited, Broadcast Communications Limited (BCL, a subsidiary of Television New Zealand).

d-Cypha Limited, a wholly owned subsidiary of Transpower New Zealand Limited and other business activities undertaken by Transpower New Zealand Limited ("Other Transpower Businesses") do not form part of the lines business. Transactions with these entities are disclosed in Note 8.

On 14 May 1999 Contact Energy Limited was sold, and therefore ceased to be a related party at that date.

Related party transactions have been disclosed for comparative purposes.

The subsidiary companies identified in Note 21 are related parties of Transpower.

Transactions entered into with related parties are disclosed as follows:

- \* Revenue from ECNZ, Meridian Energy Limited, Mighty River Power Limited, Genesis Power Limited, Contact Energy Limited and Transpower Group associate are disclosed in Note 3.
- \* Operating expenses in relation to ECNZ, Mighty River Power Limited, Meridian Energy Limited, Genesis Power Limited, BCL, Contact Energy Limited the Transpower Group associate and subsidiary companies are disclosed in Note 4 and Note 6.
- \* Annual capital work in progress expenditure paid to BCL is disclosed in Note 9.
- \* Outstanding balances due from and to ECNZ, Meridian Energy Limited, Genesis Power Limited, Mighty River Power Limited, BCL and the Transpower subsidiaries companies are disclosed in Notes 8, 9 and 10.

All related party transactions are conducted on a commercial basis. No related party debts have been written off or forgiven during the year.



## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 3. REVENUE

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Revenue	483,879	494,932
Other Operating Revenue	1,329	-
<b>Total operating revenue</b>	<b>485,208</b>	<b>494,932</b>

**Related party transactions****Transmission services revenue from:**

ECNZ	(7)	59,159
Meridian Energy Limited	92,505	23,842
Mighty River Power Limited	2,377	560
Genesis Power Limited	2,683	664
Contact Energy Limited	-	12,047
Transpower Group associate	-	4,277
	<b>97,558</b>	<b>100,549</b>

Transmission revenue consists of charges for the transmission of electricity from the point of generation to the point of supply.

**Electricity regulations additional disclosures**

Revenue provided to Lines Business from Other Transpower Businesses	234	155
AC rental rebates	711	2,048

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 4. OPERATING EXPENSES

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Administration and general costs	41,920	45,742
Asset operation and maintenance costs	89,839	85,120
<b>Charges in respect of assets:</b>		
Depreciation - leased assets	13,286	14,719
Depreciation - owned assets	74,361	76,878
Infrastructure asset service potential adjustment	-	-
Stock and asset write-offs	18,957	14,139
	10,810	8,648
<b>Charges in respect of receivables:</b>		
Bad debts written off	1	39
Movement in the provision for doubtful debts	-	(39)
Directors' fees	245	247
Donations	350	154
Lease and rental costs	2,479	2,217
<b>Total operating expenses</b>	<b>252,248</b>	<b>247,864</b>

**Related party transactions****Expenses charged by :**

ECNZ	293	20,400
Mighty River Power Limited	-	2,383
Meridian Energy Limited	-	70
Genesis Power Limited	-	15
BCL	265	255
Contact Energy Limited	-	3,807
	<u>558</u>	<u>26,930</u>

Expenses charged by ECNZ relate to certain contracts for the operation and maintenance of components of the National Grid, systems costs and consultancy services.  
Lease costs for communications sites are charged by BCL.

**Net loss on the disposal of assets included  
in stock and asset write-offs:**

Net loss on the disposal of assets	7,812	8,123
	<u>7,812</u>	<u>8,123</u>

**Electricity regulations additional  
disclosures:**

Employee salaries and redundancies	20,218	19,616
Human resource expenses	1,835	2,377
Marketing / advertising expenses	228	158
Legal and consultancy expenses (including industry reform)	10,596	8,961
Corporate and administration expenses	4,725	4,322
Other	4,318	10,308
Total Administration and General Expenditure	<u>41,920</u>	<u>45,742</u>

Payment for metering data	900	900
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## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

5. REMUNERATION OF AUDITORS	LINES BUSINESS	
	2000	1999
<b>Fees paid or payable to PricewaterhouseCoopers</b>	<b>\$000</b>	<b>\$000</b>
As auditor of Transpower and Transpower Group subsidiaries	172	185
For other services	729	808
	<u>901</u>	<u>993</u>
6. NET FINANCE COSTS		
Finance costs	98,546	98,223
Lease costs	-	-
Capitalised interest	(1,911)	(720)
Interest received	(957)	(1,158)
Dividends received	(1)	(1)
<b>Net finance costs</b>	<u>95,677</u>	<u>96,344</u>
Interest is capitalised on capital work in progress in accordance with the accounting policy outlined in Note 1(f).		
Total operating expenses	252,248	247,864
Net finance costs	<u>95,677</u>	<u>96,344</u>
Total expenses including gross financing costs amount	<u>347,925</u>	<u>344,208</u>

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 7. TAXATION

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Operating surplus before tax	191,379	136,611
Prima facie tax at 33%	63,155	45,082
<b>Tax effect of:</b>		
Timing differences not recognised		
- current period excluding revaluation adjustment	(4,899)	(10,036)
- current period revaluation adjustment	(17,852)	4,657
Permanent differences	(1,947)	(858)
Income tax charge in respect of the current year	38,457	38,845
Under provision in prior years	411	867
<b>Tax expense</b>	<b>38,868</b>	<b>39,712</b>
<b>The income tax charge is represented by:</b>		
Tax payable in the current year	38,457	38,845
Deferred tax	-	-
	<b>38,457</b>	<b>38,845</b>
<b>Deferred tax liability memorandum account</b>		
Balance at the beginning of the year	109,985	104,606
Increase (reduction) in deferred tax liability	22,751	5,379
<b>Balance at the end of the year</b>	<b>132,736</b>	<b>109,985</b>
These timing differences predominantly relate to depreciation and infrastructure asset service potential adjustment in respect of fixed assets, and are not recognised in the financial statements.		
<b>Imputation credit memorandum account</b>		
Balance at the beginning of the year	45,329	52,601
Transfer to subsidiaries	-	-
Imputation credits on dividends received	-	-
Tax payments made	51,978	32,601
Imputation credits attached to dividends paid to shareholders	(16,413)	(39,873)
<b>Balance at the end of the year</b>	<b>80,894</b>	<b>45,329</b>

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 8. CURRENT ASSETS

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Cash and bank	23	50
Short term investments	-	-
Trade receivables	77,002	60,089
Provision for current tax	4,343	-
Other receivables	-	44
Stocks of materials	24,430	26,008
Prepayments	754	870
<b>Total Current Assets</b>	<b>106,552</b>	<b>87,061</b>

**Related Party Transactions****Included in trade receivables:**

ECNZ		97
Mighty River Power Limited	233	441
Meridian Energy Limited	61,724	13,326
Genesis Power Limited	211	702
Transpower group subsidiaries	-	2,455
	<b>62,168</b>	<b>17,021</b>

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 9. FIXED ASSETS

	LINES BUSINESS	
	Valuation	Valuation
	2000	1999
	\$000	\$000
<b>Infrastructure asset</b>		
Transmission lines	822,152	833,846
<b>Non-infrastructure assets</b>		
Freehold land	44,967	43,402
Freehold buildings	42,071	42,488
Substations	803,793	783,690
HVDC link	58,705	57,693
HVDC leased assets	284,479	281,526
Communications	46,825	47,936
Administration assets	20,630	27,121
Capital work in progress	69,605	76,245
<b>Total non-infrastructure assets</b>	<b>1,371,075</b>	<b>1,360,101</b>
<b>Total fixed assets</b>	<b>2,193,227</b>	<b>2,193,947</b>

Administration assets include plant, equipment, furniture and motor vehicles.

The fixed assets of the Lines Business were valued at 30 June in accordance with the ODV methodology. The valuation was completed by Transpower, and independently reviewed by L.E.K Consulting Pty. as valuation experts.

**Electricity regulations additional disclosures**

Motor vehicles	805	880
Office equipment	412	317
Customer billing and information assets	289	211
Capital work in progress - substations	41,399	56,573
Capital work in progress - lines and cables	2,838	2,491
Capital work in progress - other	25,368	17,181
	<u>69,605</u>	<u>76,245</u>

Transpower line business system fixed assets have been valued at \$2,090 million (1999: \$2,089.5 million).

**Related party transactions**  
**Annual capital work in progress expenditure with:**

ECNZ	-	167
BCL	5	5
	<u>5</u>	<u>172</u>

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 10. CURRENT LIABILITIES

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Bank overdrafts	1,714	517
Trade creditors	20,311	16,619
Interest payable	18,158	19,791
Employee entitlements	5,399	4,738
Other provisions	4,687	4,868
Provision for dividend	42,373	62,863
Provision for current tax	-	2,548
Short term debt	75,339	86,432
Current portion of long term debt	126,204	29,848
Current portion of lease liabilities	-	-
Deferred income	17,259	15,950
Other liabilities	18	-
<b>Total current liabilities</b>	<u>311,462</u>	<u>244,174</u>
<b>Related party transactions</b>		
<b>Included in trade creditors:</b>		
ECNZ	121	268
Meridian Energy Limited	10,452	443
Genesis Power Ltd	575	-
	<u>11,148</u>	<u>711</u>

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 10. CURRENT LIABILITIES (cont...)

	LINES BUSINESS	LINES BUSINESS
	2000	1999
	\$000	\$000
<b>Reconciliation of provision for current tax payable:</b>		
Tax payable in the current year (refer Note 7)	38,457	38,845
Provisional tax payments made during the year	(43,211)	(37,164)
Under provision in prior years	411	867
<b>Total provision for current tax payable (receivable)</b>	<b>(4,343)</b>	<b>2,548</b>

## 11. LONG TERM LEASE LIABILITIES

<b>Long term lease liabilities payable:</b>		
One to two years	-	-
Two to five years	-	-
Later than five years	-	-
	<b>-</b>	<b>-</b>

The Transpower Lines Business has two cross border leases.

The HVDC converter plant at the Haywards and Benmore substations were previously leased to a subsidiary company Haywards Limited, by ECNZ. The equipment was then sub-leased by Haywards Limited to Transpower. The head lease arrangement was renegotiated in the year ended 30 June 1997 with a third party and became subject to a cross border lease. The sub-lease arrangement between Haywards Limited and Transpower is unchanged, with the lease liability due by Transpower to Haywards Limited disclosed in the table above.

The submarine cables are subject to a cross border lease arrangement entered into by Oteranga Bay Limited in the period ended 30 June 1996.

The Transpower Lines Business does not recognise a lease liability with respect to either of these cross border leases as Haywards Limited and Oteranga Bay Limited have prepaid their obligations to the respective lessors for all rental payments in respect of the primary period.



## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 12. LONG TERM DEBT

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Net funding received from the non lines business*	13,675	-
Between one to two years	249,326	185,708
Between two to five years	661,787	673,975
Greater than five years	119,428	302,874
<b>Total long term debt</b>	<b>1,030,541</b>	<b>1,162,557</b>
<b>Total Long Term Debt</b>	<b>1,044,216</b>	<b>1,162,557</b>

\*These financial statements have been prepared by adjusting the Transpower Group financial statements for non line business items included in those financial statements. The net assets of the non line business have provided funds to the Transpower Group of \$13,675,000 (1999: \$18,181,000). This was treated as an adjustment to Retained Earnings in the previous year as disclosed in Note 15, being the first year these financial statements were prepared.

The following loan arrangements included within long term debt have a face value as follows:

Bonds	570,036	662,106
Euro medium term notes	460,505	500,451
	<b>1,030,541</b>	<b>1,162,557</b>

The nature of security provided against amounts borrowed is as follows:

**Bonds**

Bonds are issued under a trust deed dated 6 April 1995 between Transpower, the Initial Guarantoring Subsidiaries (including Transpower Finance Limited) and The New Zealand Guardian Trust Company Limited. The trust deed has been amended on 30 June 1997 and 26 June 1998 in accordance with the Supplemental Trust Deed. Pursuant to the trust deed, Transpower, Transpower Finance Limited and Transpower Finance Limited's fellow subsidiaries (the "Guarantoring Group") have given a negative pledge that while any of the stock issued under the trust deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. Each member of the Guarantoring Group has guaranteed all amounts payable on redemption or repayment of the Bonds and the payment of interest during the term of the Bonds.

**Euro Medium Term Notes**

Under the Euro Medium Term Note Programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$1,000,000,000 (NZ\$2,138,351,331 as at 30 June 2000), (US\$1,000,000,000 (NZ\$1,890,359,168) as at 30 June 1999) or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance Limited have given a negative pledge and guarantee payment of all principal and interest amounts.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 13. CAPITAL

Transpower has contributed paid in capital of \$1,200,000,000 (1999: \$1,200,000,000).

## 14. RESERVES

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
<i>Capital redemption reserve</i>		
Balance at the beginning of the year	8	8
Movements during the year	-	-
<b>Balance at the end of the year</b>	8	8
<i>Asset revaluation reserve</i>		
Balance at the beginning of the year	-	-
Revaluation (devaluation) of assets*	54,096	(14,113)
Transfer to retained earnings	-	-
Transfer to statement of financial performance	(54,096)	14,113
<b>Balance at the end of the year</b>	-	-
<b>Total reserves</b>	8	8

\*Transpower's Asset Revaluation Reserve has a debit balance and consequently revaluations flow through the Statement of Financial Performance.

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

15. RETAINED EARNINGS	LINES BUSINESS	LINES BUSINESS
	2000	1999
	\$000	\$000
Balance at the beginning of the year	(325,731)	(292,939)
Operating surplus after tax	152,511	96,899
Equity Adjustment to comply with Electricity (Information Disclosure) Regulations 1999	-	(18,181)
	<u>(173,220)</u>	<u>(214,221)</u>
Transfer from the asset revaluation reserve	-	-
Dividends paid or payable	(82,687)	(111,510)
<b>Balance at the end of the year</b>	<u>(255,907)</u>	<u>(325,731)</u>
<b>Share of associate entity's retained earnings</b>		
Balance at the beginning of the year	-	-
Share of post tax surplus for the year	-	-
<b>Balance at the end of the year</b>	<u>-</u>	<u>-</u>
<b>Total retained earnings at the end of the year</b>	<u>(255,907)</u>	<u>(325,731)</u>
<b>16. CAPITAL COMMITMENTS</b>		
<b>Capital commitments in respect of contracts for capital expenditure:</b>		
Within one year	10,252	22,198
One to two years	234	512
Two to five years	234	400
<b>Total capital commitments</b>	<u>10,720</u>	<u>23,110</u>
<b>17. OPERATING LEASE COMMITMENTS</b>		
<b>Commitments in respect of non-cancellable operating leases payable:</b>		
Within one year	1,964	1,962
One to two years	1,887	1,873
Two to five years	2,337	4,057
Greater than five years	542	711
<b>Total operating lease commitments</b>	<u>6,730</u>	<u>8,603</u>

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 18. CONTINGENT LIABILITIES

## (i) Guarantees

**Cross Border Lease**

Transpower has entered into two cross border leases in respect of certain HVDC converter stations and the submarine cables. The nature of these transactions is described in Note 12. Transpower has given guarantees and certain undertakings in accordance with a limited guarantee dated 24 October 1996 in respect of certain HVDC converter stations and a limited guarantee dated 31 May 1996 in respect of the submarine cables.

The likelihood of losses in respect of these matters is considered to be remote.

**Debt**

Transpower has provided guarantees in respect of loan arrangements for the Bonds and Euro medium term notes as described in Note 11.

The maximum exposure under each of these guarantees is as follows:

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Bonds	675,401	674,918
Euro medium term notes	452,779	474,105

The likelihood of losses in respect of these matters is considered to be remote.

## (ii) Vector Limited Claim (formerly Mercury Energy Limited)

In 1998 Vector Limited (Vector) commenced a claim against Transpower concerning Transpower's pricing methodologies under common law and a claim under the Commerce Act.

The amount claimed under the Commerce Act is for \$18 million.

The common law based on prime necessities was struck out and Vector ordered to replead the Commerce Act claim. Vector has filed repleaded causes of action based on judicial review (which cannot be quantified at present) and under the Commerce Act. Transpower has applied to have these repleaded causes of action struck out.

After the reporting period ended the High Court accepted Transpower's application and struck out these causes of action.

After the balance date the dispute with Vector was settled.

## (iii) Todd Energy and Kiwi Co-operative Dairies Claim

Todd Energy Limited and Kiwi Co-operative Dairies Limited have commenced a claim against both Transpower and Powerco Limited alleging breaches of the Commerce Act. The damages claimed total \$20 million. Transpower has filed a statement of defence and believes that it has not breached the Commerce Act in any respect.

## (iv) Network Tasman

Network Tasman Limited has commenced a claim against Transpower alleging misrepresentation, breach of good faith, breach of collateral contract, estoppel, breach of the Fair Trading Act and breach of implied term. The damages claimed total \$7 million. Transpower has filed a statement of defence and believes that the claims against it are without merit.

There are no other material contingent liabilities for Transpower of the Transpower Group as at balance date (1999:nil).

## 19. SEGMENTAL INFORMATION

The Transpower Lines Business operates predominantly in one industry, the transmission of high voltage electricity. Transpower's operations are carried out in New Zealand and are therefore within one geographical segment for reporting purposes.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS

## (a) Financial risks

The Transpower Lines Business is subject to a number of financial risks which arise as a result of having a debt portfolio of \$1,232,084,000 as at 30 June 2000 (\$1,278,837,000 as at 30 June 1999) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

*Interest rate risk*

Interest rate risk is the risk of adverse impact on the present and future finance costs of the Company arising from the interaction of interest rate movements with Transpower's debt portfolio.

*Currency risk*

Currency risk is the risk of adverse impact of exchange rate movements, which determine the New Zealand dollar cost of foreign denominated expenditures and the New Zealand dollar value of debt issued in foreign currencies.

*Credit risk*

Credit risk is the risk of adverse impact on Transpower through the failure of a third party bank, financial institution or customer to meet its financial obligations. Financial instruments which subject Transpower to credit risk include bank balances, receivables, investments, interest rate swaps, cross currency interest rate swaps, interest rate options, forward rate agreements, foreign exchange and forward contracts.

*Liquidity risk*

Liquidity risk is the risk of adverse impact on Transpower arising from the Company's inability to meet its monetary obligations in an orderly manner. This might result from the Company not maintaining adequate funding facilities or being unable to renew or replace existing facilities when they mature.

To manage and limit the effect of these financial risks the Transpower Board of Directors have approved policy guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All off balance sheet financial instruments must be directly related to underlying physical debt or firm capital commitments on Board-approved projects.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

## (b) Risk management policies

The key risk management policies are as follows:

*Interest rate risk management policy*

Transpower's policy is that floating rate debt is not to exceed 50 per cent of total debt and no more than 40 per cent of fixed rate debt is to re-price in any 12 month period. This policy ensures that Transpower's cost of funds will be reasonably predictable from year to year. Transpower defines floating rate debt to include debt for which the next interest rate reset is due within 12 months.

*Currency risk management policy*

Transpower's policy is to hedge all material foreign currency denominated purchases, arising from service change expenditure approved within a New Investment Agreement Service integrity expenditure is paid at spot. Foreign currency borrowings are converted into New Zealand dollars at the time of commitment to drawdown by Transpower. Currency risk is eliminated using foreign exchange forward contracts and cross currency interest rate swaps.

*Credit risk management policy*

Transpower's credit policy is to establish credit limits with counterparties that are either a bank, a financial institution or special purpose derivatives products company. These credit limits are not to exceed 20 per cent of Transpower Group shareholder's funds or 15 per cent of the Shareholders funds of the counterparty as shown in the most current annual report. If the counterparty is a New Zealand corporate, the credit limit is not to exceed NZ\$ 20 million.

In addition the counterparty must have a minimum long term credit rating of A or above by Standard & Poor's, or Moody's equivalent; or if the counterparty is a New Zealand corporate a short term credit rating of A-1 or above. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising Transpower's customer base. It is the Company's policy to perform credit evaluations on customers requiring credit and the Company may in some circumstances require collateral. No collateral is held at 30 June 2000 (1999: nil).

*Liquidity risk policy*

To ensure Transpower has adequate funding facilities in place to support future operations Transpower's liquidity policy requires the Company to have access to committed debt facilities (i.e. guaranteed funds) that exceed the peak of the total monthly cumulative cash outflows over the next six months by 20 per cent. To smooth Transpower's refinancing requirements in future periods, committed debt facilities maturing in any 12 month period are not to exceed 25 per cent of total debt.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

## c) Financial instruments which manage currency, interest rate and liquidity risk

The Transpower Board of Directors have authorised the use of the following financial instruments to manage currency risk, interest rate risk and liquidity risk:

*On Balance Sheet financial assets and liabilities**Term debt*

Transpower has four active debt facilities; a European Commercial Paper Programme, Euro Medium Term Note Programme, a Domestic Medium Term Note Programme and a Domestic Multi-option Facility. The Company uses these facilities to issue debt securities into different global debt markets.

In the event Transpower is unable to utilise these facilities the Company has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks of which NZ\$125,000,000 is underwritten and which was unused as at 30 June 2000 and 30 June 1999. The second facility is a Standby Facility for US\$150,000,000 (NZ\$320,752,699) of which the total amount was unused at 30 June 2000. At June 1999 this facility was US\$190,000,000 (NZ\$359,168,242) and was also unutilised.

*Term investments*

Transpower from time to time invests surplus cash arising from its core operations and from active liquidity management in wholesale bank deposits and securities for periods of up to one year.

*Off Balance Sheet financial assets and liabilities**Interest rate swaps*

Interest rate swaps are used to change the interest rate structure on physical debt issued by Transpower. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into an interest rate swap. In the normal course of Transpower's hedging activities interest rate swaps are entered into for periods of up to 10 years.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

The notional gross contract amounts of interest rate swaps outstanding at balance date are:

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
Interest rate swaps	1,510,448	1,255,094

*Cross currency interest rate swaps*

Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by Transpower into New Zealand dollar denominated debt. Cross currency interest rate swap contracts eliminate foreign currency risk on the underlying debt by determining the New Zealand dollar equivalent of the final principal exchange at the time of entering into the contract.

The principal amounts of cross currency interest rate swaps outstanding at balance date are:

Cross currency interest rate swaps		
Principal receivable	911,633	781,624
Principal payable	(790,938)	(753,450)

*Forward rate agreements*

Forward rate agreements are used to fix interest rates on Transpower's underlying debt for periods commencing in the future. In the normal course of business Transpower enters into forward rate agreements to fix interest rates on floating rate debt for intervals of three months.

The notional contract amounts of forward rate agreements outstanding at balance date are:

Forward rate agreements	270,000	(25,000)
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*Interest rate options*

Transpower enters into interest rate options to manage interest rate re-pricing risk. Transpower purchases interest rate options to minimise the impact on finance costs arising from floating rate debt if interest rates were to rise in the future. In the normal course of Transpower's interest rate risk management the sale of interest rate options is restricted by the requirement to simultaneously purchase an interest rate option of the same notional value.



## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

The notional contract amounts of interest rate options outstanding at balance date are:

	LINES BUSINESS	LINES BUSINESS
	2000	1999
	\$000	\$000
Interest rate options	550,000	115,000

*Foreign exchange forward contracts*

Transpower uses foreign exchange forward contracts to fix the New Zealand dollar cost of foreign denominated capital equipment and stock purchases and to eliminate foreign currency risk on debt issued in foreign currency.

The contract amount of forward foreign exchange contracts outstanding at balance date are:

Forward foreign exchange contracts	2,459	9,442
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*Foreign currency options*

Transpower enters into foreign currency options to manage the effect of exchange rate fluctuations on foreign currency purchases. Transpower purchased foreign currency options to reduce the impact of unfavourable movements in exchange rates during the period between commitment to purchase capital equipment, stocks items and the contracted payment date.

The notional contract amount of foreign currency options outstanding at balance date are:

Foreign currency options	-	-
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## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

**(d) Maximum credit risk exposure**

The maximum credit exposure to which Transpower is subject is best measured by the cash settlement amount receivable from the Counterparty. This is represented by the principal amount receivable for cross currency interest rate swaps and foreign exchange forward contracts, the net interest receivable/payable for interest rate swaps and the market value of interest rate options, foreign currency options and forward rate agreements.

Where the net interest accrued on interest rate swaps represents a payable and the current market value of interest rate options, foreign currency options and forward rate agreements represents a loss, Transpower is not subject to credit risk on these instruments at balance date.

	LINES BUSINESS 2000 \$000	LINES BUSINESS 1999 \$000
<b>Cash settlement is represented by:</b>		
<b>Principal amount receivable/(payable)</b>		
Cross currency interest rate swaps		
- receivable	911,633	781,624
- payable	(790,938)	(753,450)
Foreign exchange forward contracts	2,459	9,442
<b>Net interest payable</b>		
Interest rate swaps	(3,373)	(4,903)
<b>Current market value</b>		
Interest rate options	(888)	(614)
Foreign currency options	-	-
Forward rate agreements	(111)	2

The credit risk arising from cross currency interest rate swap contracts is reduced by the netting and set-off provisions of the swap documentation and the application of applicable law. The Group further manages this risk by only entering into transactions with counterparties that fall within Transpower's credit risk management policy as outlined in section (b) risk management policies, of this note.

**(e) Carrying value and fair value****Carrying value**

For off balance sheet financial instruments the carrying value in the Carrying/Fair Value table below is taken from the other receivables and other liabilities categories in the Statement of Financial Position as appropriate. The carrying values represent the results of accounting for these instruments, as described in the Statement of Accounting Policies.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

*Fair value*

Fair value represents the amount which would, in the course of the normal operation of the financial markets, extinguish all current and future contractual obligations arising in respect of a particular financial instrument.

The fair value for short term investments, debt, cross currency interest rate swaps, foreign exchange forward contracts, interest rate swaps, forward rate agreements, interest rate options and foreign currency options is determined using the current market rates at balance date. For those debt instruments where there is no quoted market rate at balance date the fair value is based on the current market rate of a financial instrument with a similar maturity.

For cash and bank, trade receivables/creditors, other receivables, other liabilities, investments and investments in shares, the fair value is equivalent to their carrying value and has been excluded from the Carrying/Fair Value table.

The difference between the carrying value and the fair value represents an unrealised cost or benefit to the Company. This arises as a result of variations between the historical contract rate and the current market rate at balance date.

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 2000 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$21,960,000,000 (NZ\$53,793,000 as at 30 June 1999). This comprises the difference between the carrying values and fair values of debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

Transpower anticipates that the financial instruments will be held to maturity and it is unlikely that settlement at the reported fair values will occur and the resulting benefit or loss realised.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

Carrying value/fair value	Carrying Value 2000 \$000	Fair Value 2000 \$000	Carrying Value 1999 \$000	Fair Value 1999 \$000
<b>GROUP</b>				
<i>On Balance Sheet</i>				
Debt	(1,232,084)	(1,255,659)	(1,278,837)	(1,345,056)
<i>Off Balance Sheet</i>				
Cross currency interest rate swaps	3,691	22,371	3,476	30,656
Foreign exchange forward contracts hedging foreign currency debt	-	-	-	-
Foreign exchange forward contracts hedging foreign currency purchases	-	306	-	235
Interest rate swaps	(3,373)	(19,439)	(4,903)	19,045
Forward rate agreements	-	(111)	-	2
Interest rate options	-	(888)	-	(614)
Foreign exchange forward contracts	-	-	-	-

**(f) Interest rate re-pricing analysis**

The following table covers Transpower's total debt portfolio, including the effect of off balance sheet financial instruments when interest rates will be re-priced and the current weighted average interest rate of each maturity. Transpower will transact further interest rate hedging in advance of the re-pricing date to fix interest rates on the Company debt portfolio within the policy parameters adopted by the Board.

Trade receivables/creditors, other receivables and other liabilities have not been included in the table below as they are not interest rate sensitive.

Forward rate agreements are also excluded from the repricing analysis as these contracts mature within one year. For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 20. FINANCIAL INSTRUMENTS (cont...)

LINES BUSINESS 2000		Within one year	One to two years	Two to five years	Greater than five years	Total
Effective interest rate		\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Short term investment		-	-	-	-	-
Cash at Bank	3.50%	19	-	-	-	19
		19	-	-	-	19
<b>Liabilities</b>						
Debt	7.49%	(510,991)	(249,326)	(433,940)	(37,827)	(1,232,084)
		(510,991)	(249,326)	(433,940)	(37,827)	(1,232,084)
<b>Off Balance Sheet</b>						
Interest rate swaps		341,780	-	(196,400)	(145,380)	-
		341,780	-	(196,400)	(145,380)	-
<b>Repricing Profile</b>						
		(169,192)	(249,326)	(630,340)	(183,207)	(1,232,065)

The interest rate on debt as amended by interest rate swaps is 7.63%

## LINES BUSINESS 1999

LINES BUSINESS 1999		Within one year	One to two years	Two to five years	Greater than five years	Total
Effective interest rate		\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Short term investment		-	-	-	-	-
Cash at Bank	2.00%	4	-	-	-	4
		4	-	-	-	4
<b>Liabilities</b>						
Debt	7.54%	(465,095)	(150,980)	(438,997)	(223,765)	(1,278,837)
		(465,095)	(150,980)	(438,997)	(223,765)	(1,278,837)
<b>Off Balance Sheet</b>						
Interest rate swaps		432,030	(50,250)	(236,400)	(145,380)	-
		432,030	(50,250)	(236,400)	(145,380)	-
<b>Repricing Profile</b>						
		(33,061)	(201,230)	(675,397)	(369,145)	(1,278,833)

The interest rate on debt as amended by interest rate swaps is 7.32%

## PARENT

Transpower's re-pricing risk on financial instruments is all within one year and is primarily with Transpower Group subsidiaries. The long term debt of \$40,661,000 (1999:\$30,797,000) is matched by an advance to a Transpower Group subsidiary, with the same maturity. The effective interest rates on Transpower's financial instruments are cash 3.5% (1999:2.00%), bank overdraft 10.25% (1999:9.30%) investments 7.16% (1999:8.06%) and debt 7.36% (1999:7.54%)

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

## 21. ITEMS WITH NIL BALANCES REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999.

	2000	1999
<b>Revenue</b>		
Revenue from line/access charges invoiced to consumers by electricity retailers	0	0
Revenue from line/access charges from Line business to final consumer	0	0
Temporary supply sales (line charges)	0	0
<b>Payments by Line businesses to "Other" for:</b>		
Consumer based load control equipment	0	0
Disconnection/reconnection services	0	0
Asset maintenance services	0	0
Avoided transmission charges on account of own generation	0	0
<b>Expense to non-related entity for:</b>		
Consumer-based load control	0	0
Disconnection/reconnection services	0	0
Asset maintenance services	0	0
Avoided transmission charges on account of any cause other than own generation	0	0
Depreciation upon capital works under construction	0	0
Merger and acquisition expenses	0	0
Takeover defence expenses	0	0
Research and development expenses	0	0
Amortised goodwill	0	0
Subvention payments	0	0
Transmission charges	0	0
Customer billing and information system expense	0	0
Other goods and services provided to Transpower lines business	0	0
<b>Assets</b>		
Capital works under construction upon:		
Subtransmission assets	0	0
Medium Voltage Switchgear	0	0
Distribution Transformers	0	0
Distribution substations	0	0
Low voltage lines and cables	0	0
Centralised load control equipment	0	0
Goodwill	0	0
Total intangible assets	0	0

**STATEMENT OF PERFORMANCE MEASURES  
FOR THE YEAR ENDED 30 JUNE 2000**

	LINES BUSINESS 2000	LINES BUSINESS 1999	GROUP 1998	GROUP 1997	GROUP 1996	GROUP 1995
<b>Financial Measures</b>						
Return on Equity	11.8%	13.4%	-30.0%	6.9%	7.4%	6.9%
Return on Assets	10.7%	11.2%	-7.9%	8.1%	8.9%	8.2%
Return on Investment	10.1%	7.3%	-11.3%	5.3%	7.2%	8.0%

**Efficiency Measures**

Direct line costs per kilometre, which shall be calculated in accordance with the following formula:

$\frac{a}{b}$	89,839,000	85,580,584	120,954,000	122,388,000	116,444,000	119,878,000
	17,542	17,640	17,640	17,693	17,739	17,626
<i>a</i> is direct expenditure (in dollars); and	<b>\$5,121</b>	<b>\$4,852</b>	<b>\$6,857</b>	<b>\$6,917</b>	<b>\$6,564</b>	<b>\$6,801</b>
<i>b</i> is system length (in kilometres);						

**Direct line costs per kilometre**

Transpower altered its calculation of direct costs in 1999 to exclude Security Product Costs. Including the Security Product Costs gives an efficiency measure of \$6,634.

From the year end 30/06/99 the Electricity (Information Disclosures) Regulations 1999 required that only the lines portion of the business was disclosed. The regulations did not require that comparatives be restated and as such have not been.

**FORM FOR THE DERIVATION OF FINANCIAL AND EFFICIENCY MEASURES FROM THE  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000**

	in formula	calculations	ROF \$000	ROE \$000	ROI \$000
Earnings before interest and tax (EBIT) before revaluations	a		232,960		232,960
Net profit after tax (NPAT)	n			98,415	
Amortised goodwill	g				
Subvention payment	s				
Depreciation of SFA at BV	x		87,647	87,647	87,647
Depreciation of SFA at ODV	y		87,647	87,647	87,647
ODV depreciation tax alignment	d	(x-y)			
Subvention payment tax adjustment	s*t				
Interest tax Shield	q				32,520
Revaluations	r				54,096
Income tax	p				38,868
<b>Numerator (as adjusted)</b>		a + g + s + d	232,960	98,415	215,668
Fixed assets at year beginning (FA 0)			2,193,947	2,193,947	2,193,947
Fixed assets at year end (FA 1)			2,193,227	2,193,227	2,193,227
Net working capital at year beginning (ANWC 0)			42,288	42,288	42,288
Net working capital at year end (ANWC 1)			58,855	58,855	58,855
Average total funds employed (ATFE)	c	(FA 0 + FA 1 + ANWC 0 + ANWC 1)/2	2,244,158	2,244,158	2,244,158
Total equity at year beginning (TE 0)			874,277	874,277	874,277
Total equity at year end (TE 1)			944,101	944,101	944,101
Average total equity	k	(TE 0 + TE 1)/2	909,189	909,189	909,189
Works under construction at year beginning (WUC 0)			76,245	76,245	76,245
Works under construction at year end (WUC 1)			69,605	69,605	69,605
Average total works under construction	e	(WUC 0 + WUC 1)/2	72,925	72,925	72,925
Revaluations	r		54,096	54,096	54,096
Intangible asset at year beginning (IA 0)					
Intangible asset at year end (IA 1)					
Average Intangible asset	m	(IA 0 + IA 1)/2			
Subvention payment for previous year (S 0)					
Subvention payment for this year (S 1)					
Subvention payment tax adjustment for previous year		S 0 * t			
Subvention payment tax adjustment for this year		S 1 * t			
Average subvention payment & related tax adjustment	v	[(S 0 + S 1)(1 - t)]/2			
System fixed assets at year beginning at book value (SFA bv 0)			2,089,000	2,089,000	2,089,000
System fixed assets at year end at book value (SFA bv 1)			2,090,000	2,090,000	2,090,000
Average value of system fixed assets at book value	f	(SFA bv 0 + SFA bv 1)/2	2,089,500	2,089,500	2,089,500
System fixed assets at year beginning ODV value (SFA odv 0)			2,089,000	2,089,000	2,089,000
System fixed assets at year end ODV value (SFA odv 1)			2,090,000	2,090,000	2,090,000
Average value of system fixed assets at ODV value	h	(SFA odv 0 + SFA odv 1)/2	2,089,500	2,089,500	2,089,500
<b>Denominator (as adjusted)</b>		c - e - f + h	2,171,233	836,264	2,144,185
<b>Financial performance measure</b>		EBIT adj / ATFE adj x	NPAT adj/ATFE adj	EBIT adj/ATFE adj	10.1



## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

ANNUAL VALUATION RECONCILIATION REPORT  
YEAR ENDING 30 JUNE 2000

	\$ million
System Fixed Assets at ODV at 30 June 1999	<u>2,089</u>
<i>Less</i> reclassification to non system fixed assets	8
<i>Add</i> system fixed assets acquired during the year at ODV	83
<i>Less</i> system fixed assets disposed of during the year at ODV	10
<i>Less</i> depreciation on system fixed assets at ODV*	118
<i>Add</i> revaluations of system fixed assets	54
Equals system fixed assets at ODV at 30 June 2000	<u><u>2,090</u></u>

\*Depreciation on system fixed assets at ODV includes the Long Run Average Cost of maintaining the transmission lines.

Reconciliation of the Transpower Lines Business's depreciation to the "depreciation on the system fixed assets at ODV".

Depreciation as per group accounts as at 30/06/00	91
<i>plus</i> Long Run Average cost**	43
<i>Less</i> depreciation on non system assets	<u>-16</u>
	<u><u>118</u></u>

\*\*Long Run Average Cost (LRAC) is the cost for a year to maintain the current service potential of transmission line. Therefore by its nature it is a proxy for the depreciation charge for the year.

Long Run Average Costs	43
<i>Less</i> Service Potential Adjustment	<u>-19</u>
Life Extending Maintenance Expenditure	<u><u>24</u></u>

The \$24 million Life Extending Maintenance is included in the system fixed assets acquired during the year at ODV".

**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999  
REGULATION 32(3)**

**CERTIFICATE BY DIRECTORS OF FINANCIAL STATEMENTS,  
PERFORMANCE MEASURES AND STATISTICS  
DISCLOSED BY TRANSPOWER NEW ZEALAND LIMITED.**

We, Sir Colin Maiden and Barbara Elliston, Directors of Transpower New Zealand Limited (Transpower) certify that, having made all reasonable inquiry, to the best of our knowledge;

- a) The attached audited financial statement of Transpower, prepared for the purposes of regulation 5 of the Electricity (Information Disclosure) Regulations 1999, 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 measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of regulations 15, 16, 16A, 21 and 22 of the Electricity (Information Disclosure) Regulations 1999, comply with the requirements of the Electricity (Information Disclosure) Regulations 1999.

The valuations on which those financial performance measures are based are as at 30 June 2000.



Sir C Maiden.  
24 November 2000



B Elliston.

**The Electricity (Information Disclosure) Regulations 1999***(For 12 months ending 30 June 2000, 30 June 1999, 30 June 1998, 30 June 1997)***Part 4**

<b>Energy Delivery Efficiency Performance Measures And Statistics (Disclosure Under Regulation 21)</b>	<b>1999-2000</b>	<b>1998-99</b>	<b>1997-98</b>	<b>1996-97</b>
<b>1. Energy delivery efficiency performance measures</b>				
(a) Load factor .....%	69.08	68.78	67.40	66.01
<i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>				
(b) Loss ratio .....%	3.97	3.83	4.27	3.61
<i>Transmission losses as percentage of energy entering the system</i>				
(c) Capacity utilisation.....%	63.49	65.11	66.99	67.48
<i>Maximum demand as percentage of total transformer capacity</i>				
<b>2. Statistics</b>				
<b>(a) System length, broken down by voltage</b>				
Total .....km	17,542	17,640	17,640	17,693
350 kV (HVDC) .....km	611	611	611	611
270 kV (HVDC) .....km	611	611	611	611
0 kV (HVDC earth electrode) .....km	31	31	31	31
220 kV (HVAC) .....km	8,365	8,365	8,365	8,363
110 kV (HVAC) .....km	6,212	6,270	6,263	6,323
66/50/33/11 kV .....km	1,712	1,752	1,759	1,754
<b>(b) Circuit length of overhead electric lines, broken down by voltage:</b>				
Total .....km	17,457	17,555	17,556	17,610
350 kV (HVDC) .....km	571	571	571	571
270 kV (HVDC) .....km	571	571	571	571
0 kV (HVDC earth electrode) .....km	31	31	31	31
220 kV (HVAC) .....km	8,365	8,365	8,365	8,363
110 kV (HVAC) .....km	6,207	6,265	6,259	6,320
66/50/33/11 kV .....km	1,712	1,752	1,759	1,754
NB: HVDC link submarine power cables measure approximately 80km.				
Broken down by voltage:				
350 kV (HVDC) .....km	40	40	40	40
270 kV (HVDC) .....km	40	40	40	40
<b>(c) Total circuit length of underground electric lines ( 110 kV HVAC).....km</b>				
	5	5	4	3
<b>(d) Transformer capacity</b>				
(kilovolt amperes)..... kVA	9.18*10 <sup>6</sup>	8.71*10 <sup>6</sup>	8.64*10 <sup>6</sup>	8.56*10 <sup>6</sup>
<b>(e) Maximum demand (kilowatts) *.....kW</b>				
	5.83*10 <sup>6</sup>	5.67*10 <sup>6</sup>	5.79*10 <sup>6</sup>	5.77*10 <sup>6</sup>
<b>(f) Total electricity supplied from the system</b>				
(kilowatt hours) *.....kWh	33.88*10 <sup>9</sup>	32.86*10 <sup>9</sup>	32.73*10 <sup>9</sup>	32.20*10 <sup>9</sup>
<b>(g) Total electricity conveyed through the system</b>				
(kilowatt hours) *..... kWh	35.28*10 <sup>9</sup>	34.17*10 <sup>9</sup>	34.19*10 <sup>9</sup>	33.40*10 <sup>9</sup>
<b>(h) Total customers .....</b>				
	54	55	51	50

\* to 2 decimal places only, higher accuracy used in calculations

## Part 6

Reliability Performance Measures To Be Disclosed By Transpower (Disclosure Under Regulation 22)	1999-2000	1998-99	1997-98	1996-97
1. Total number of unplanned interruptions* <i>Resulting from 50 loss of supply incidents in 1999-2000</i>	62	110	103	164
2. Electricity customer interruptions in system minutes.....**	4.9	9.7	5.1	13.6
planned	2.8	2.7	2.1	2.1
unplanned	2.1	7.1	2.9	11.5
3. Underlying electricity customer interruptions in system minutes.....**	4.9	7.3	5.1	6.9
<i>Underlying interruptions are those interruptions of 1     system minute or less duration</i>				
planned	2.8	1.7	2.1	2.1
unplanned	2.1	5.6	2.9	4.8
4. Average supply reliability .....%	99.9986	99.9972	99.9985	99.9959
<i>Measured by the energy supplied divided by the sum of     the energy supplied and not supplied</i>				
5. Uneconomic generation due to planned and unplanned transmission system unavailability .....%	-	-	-	0.55
<i>Uneconomic generation relates to the amount of     electricity generated from any source other than the     most economic source.</i>				
6. Uneconomic generation due to HVDC system unavailability .....%	-	-	-	0.47
7. Uneconomic generation due to unplanned transmission system unavailability .....%	-	-	-	0.12
8. Planned interruption restoration performance.....%	100	94.4	90.5	72
9. Unplanned interruption response.....%	100	100	98.1	100

The information compiled using estimated information includes Part 6 sections 2, 3 and 4. The methodology used to calculate the estimated information is documented and available from Transpower upon request.

Uneconomic generation (Part 6 sections 5, 6 and 7) is not relevant in the market environment because scheduling is now based on offered price, not economic cost. In the market, 'offers to generate' are made after taking constraints into account and it is not possible to predict what a generator would have offered if the constraint was not present. As a result data is not available to allow a calculation for 1999/2000 and a null entry has been returned. The values which appeared in the 1999 Quality Performance Report for 1997/98 and 1998/99 were prepared using the prescribed method, and these have been updated in this issue for the same reason.

\* Where two supply voltages, or two customers, at the same station are both interrupted this is counted as two interruptions.

\*\* Any minor differences between the total and the sum of planned and unplanned are due to rounding. System minutes of interruptions are not counted if energy is made up by backfeed from another point of supply or by embedded generation within a customers network.