

Statement of Intent

for the year ending 30 June 2022

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1 Introduction and Purpose of Statement of Intent

Aurora Energy Ltd ('the Company') transports electricity from the national grid to the end-use consumer ensuring the safe, reliable and efficient supply of electricity to homes, farms and businesses throughout the Otago region.

The Company is an Energy Company and a wholly owned subsidiary of Dunedin City Holdings Ltd. Dunedin City Holdings Ltd is wholly owned by the Dunedin City Council (DCC).

This Statement of Intent (Sol) sets out the Company's planned activities and financial forecasts for the next three years. It includes performance measures and targets which will be reported against in the Company's 2022 Annual Report.

The planned activities and performance measures take shareholder comments into consideration.

2 Objectives

As a DCC Group company, Aurora Energy Ltd aims to contribute to the DCC's strategic framework and achievement of city objectives.

The Company aims to support the future growth and wellbeing of communities in the Otago region by supplying electricity when and where it is needed - safely, reliably and efficiently, and supporting customers' future energy choices by embracing the new and innovative technologies that are now emerging.

During the year ended 30 June 2022, the Company's focus will be on the key business initiatives detailed in its recent Customised Price-Quality Path (CPP) application. These initiatives will build further asset management and work delivery capabilities, enhance customer experiences and continue to improve the safety and reliability performance of the network assets.

As an Energy Company, the Company has the following objectives, as defined in the Energy Companies Act 1992:

1. The principal objective of an Energy Company is to operate as a successful business; and
2. In seeking to attain its principal objective, an Energy Company shall have regard, among other things, to the desirability of ensuring the efficient use of energy.

In operating its business, the Company also has regard to the objectives of a Council Controlled Trading Organisation to:

- a) achieve the objective of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer (as per clause 36 of Schedule 7 to the Local Government Act; and
- c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- d) conduct its affairs in accordance with sound business practice.

Health, Safety and Wellbeing is integral to the manner in which Aurora Energy Ltd operates and conducts its business affairs.

3 Approach to Governance

In addition to the obligations of the Energy Companies Act 1992, the Company is also subject to the requirements of the Companies Act 1993 and is governed by a Board of independent directors appointed by the Company's shareholder, Dunedin City Holdings Ltd.

The Board of independent directors operates in accordance with accepted best practice governance.

The role of a director of an Energy Company is defined in Section 37 of the Energy Companies Act 1992. This section states that all decisions relating to the operation of an Energy Company shall be made by or pursuant to the authority of the directorate of the Company in accordance with its Statement of Intent. The Board is responsible for the preparation of the Sol which requires approval from the Company's shareholder.

The Board meets on a regular basis to direct and control the company's activities. Directors are appointed by the shareholder and a Board performance evaluation framework is in place.

The Board accepts that it is responsible for the overall control system operating within the company but recognises that no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems reflect the specific risks associated with the business of the company.

The shareholder reviews and approves the Sol and three year financial plan.

Six-monthly and annual reports of financial and operating performance are provided to the shareholder.

4 Nature and Scope of Activities

The principal activities of the Company are the ownership, development and strategic management of electricity distribution network assets in Dunedin and Central Otago. The Company is also engaged in activities aimed at supporting customers' future energy choices through the deployment of new and innovative emerging technologies.

The Company's function is to transport electricity from the national grid to the end-use consumer, ensuring a safe, reliable and efficient distribution network.

Customers include large directly billed consumers, distributed generators and New Zealand's electricity retailers.

Key suppliers include field service providers contracted to build and maintain the Company's electricity distribution network assets.

Under the Commerce Commission's Electricity Information Disclosure Requirements, the Company is required to publish, at least biennially, a 10 year Asset Management Plan. The Company's Asset Management Plan sets out the way in which it plans to ensure that long-lived assets are managed sustainably.

Aurora invites comment on its Asset Management Plan from electricity retailers (on behalf of their customers) and provides opportunity for public comments via its website.

The undertaking by the Company of any activity of a nature or scope outside of the activities outlined above would be subject to the prior approval of the shareholder.

5 Performance Targets and Other Measures

Goals	Objectives	Performance Measures
SAFETY Overall Objective: To build a high-performance Safety culture in which Safety Nothing Less is our performance standard Overall Outcome: Safety Nothing Less for Aurora Energy staff, Contractors and the Community		
To deliver on Aurora Energy's, Health, Safety and Wellbeing strategies and associated business plans	Zero serious harm events involving members of the public	Number of serious injury events (excluding third party contacts with the network) involving members of the public Targets: 2022 0 2023 0 2024 0
	Reduce levels of recordable harm	Total Recordable Injury Frequency Rate (TRIFR) per 200,000 hours worked by Aurora and Contractors Targets: 2022 < 4.00 2023 < 3.75 2024 < 3.50

Goals	Objectives	Performance Measures
ASSET MANAGEMENT Overall Objective: Deliver Excellence in lifecycle Asset Management Overall Outcome: Asset Management Excellence		
Reliability Performance Targets SAIDI and SAIFI Performance Measures are calculated in accordance with the Commerce Commission's Default Price Quality Path methodology. The SAIDI and SAIFI limits set as Performance Measures for 2022, 2023 and 2024 are consistent with the Commerce Commission's draft decision on Aurora Energy's Customised Price-Quality Path released 12 November 2020.		
To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets the service level targets in the company's 2021-2030 Asset Management Plan.	SAIDI System Average Interruption Duration Index - Class B Interruptions (Planned)	Average minutes without electricity per consumer Limits for years ended 31 March : 2022 ≤ 195.96 minutes 2023 ≤ 195.96 minutes 2024 ≤ 195.96 minutes
	SAIDI System Average Interruption Duration Index - Class C Interruptions (Unplanned)	Average minutes without electricity per consumer Limits for years ended 31 March: 2022 ≤ 124.94 minutes 2023 ≤ 124.94 minutes 2024 ≤ 124.94 minutes
	SAIFI System Average Interruption Frequency Index - Class B Interruptions (Planned)	Average frequency of outages per consumer Limits for years ended 31 March: 2022 ≤ 1.11 2023 ≤ 1.11 2024 ≤ 1.11
	SAIFI System Average Interruption Frequency Index - Class C Interruptions (Unplanned)	Average frequency of outages per consumer Limits for years ended 31 March: 2022 ≤ 2.07 2023 ≤ 2.07 2024 ≤ 2.07

Goals	Objectives	Performance Measures
	Asset Management Maturity	
Enhance asset management practices across the business	Implement process and capability improvements identified as necessary to enhance asset management practice	New asset management system is successfully implemented and operational by 30 June 2022
Develop mature & compliant asset management planning approaches	Effective long-term planning for Aurora Energy's asset portfolio is in place	Annual and compliant Asset Management Plan is published as per regulatory requirements.
OPERATIONAL PERFORMANCE Overall Objective: Deliver demonstrably optimised business performance Overall Outcome: A capable & streamlined business performance		
Improve Aurora Energy's work programme scheduling	Ensure forward-looking work programmes are in place	Work programmes are delivered to Contractors on a rolling quarterly basis in accordance with Field Service contract terms
New Enterprise Risk Management Framework is an ongoing reference point for managing risks	Aurora Energy Risk Register is regularly reviewed & updated and the risk profile is managed in accordance with Board approved risk tolerance levels.	Risk Management Framework embedded as evidenced by: - Risk registers reviewed regularly and up to date, - Risk treatment plans reviewed regularly and up to date - Regular reporting to Board and Audit & Risk Committee
Aurora Energy is prepared and able to respond appropriately to emergencies	Regularly test Aurora Energy's emergency response plan	Annual test of Aurora Energy's emergency response is completed and actions for improvements are documented

Goals	Objectives	Performance Measures
CUSTOMER ORIENTATION Overall Objective: To deliver value to our customers and stakeholders – current & future Overall Outcome: Satisfied customers & stakeholders		
To make a positive contribution to our community	Maintain community support through approved sponsorships and community initiatives	Sponsorship and community initiatives \$ per annum targets: 2022 \$10,000 2023 \$10,000 2024 \$10,000
Consult and engage with customers and stakeholders	To provide regular updates and consult with the community on the delivery of our CPP programme	Annual delivery reporting and regional community engagements are delivered in accordance with the final CPP decision
OUR TEAM Overall Objective: To build a high performing & respected team Overall Outcome: An engaged, diverse, inclusive and motivated team		
To develop a high performing team	Support development opportunities for each team member	Learning & development plans in place for >75% of team members by 31 October each year
To create a motivated & satisfied team	Understand opportunities for improvement within our team environment	>75% staff satisfaction result on annual employee survey
To create an environment that supports overall individual & team wellness	Develop opportunities across the business that support the overall wellness of our team	A Board-approved Wellbeing Programme is in place. The Programme is reviewed and updated annually

Goals	Objectives	Performance Measures
SUSTAINABILITY Overall Objective: Embed Sustainability processes across our business Overall Outcome: Enable the management of a reduction in our carbon footprint		
Contribute to Council's Strategic Framework and Climate Change and Carbon Neutrality initiatives	Contribute to Council's Carbon Neutrality initiatives	Systems for measuring and publicly reporting carbon emissions are established. The company will develop an emissions reduction strategy and associated targets for inclusion in its 2022/2023 Statement of Intent.
Contribute to waste reduction initiatives	Minimise waste and the associated negative environmental impacts	A waste reduction / diversion strategy is to be in place by 30 June 2022, together with future waste reduction performance targets
Contribute to carbon emission reduction and electrification	Identify opportunities to transition light motor fleet to electric vehicles where appropriate and set transition targets	Transition targets for electrification of the company's motor fleet to be in place by 30 June 2022
Uphold the Resource Management Act	Maintain full compliance with the Resource Management Act	Number of breaches of the Resource Management Act Targets: 2022 0 2023 0 2024 0

Goals	Objectives	Performance Measures
SHAREHOLDER		
Bring to the attention of the Shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and those of the Company and seek the Shareholder's view on these	Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	Potential conflicts notified to the Shareholder Targets: 2022 No unnotified potential conflicts 2023 No unnotified potential conflicts 2024 No unnotified potential conflicts
Keep the Shareholder informed of all substantive matters	On a "no surprises" basis, advise the Shareholder promptly of any substantive matter that has the potential to impact negatively on the Shareholder and the Company with a particular focus on the media	Substantive matters reported to the Shareholder within 24 hours Targets: 2022 All substantive matters reported within 24 hours 2023 All substantive matters reported within 24 hours 2024 All substantive matters reported within 24 hours

6 Financial Forecasts

The financial forecasts included in this section are derived from assumptions in relation to the future price path and expenditure allowances determined by the Commerce Commission for Aurora Energy Ltd.

The financial forecasts reflect the Commerce Commission's final decision on the company's proposal for a customised price-quality path dated 31 March 2021.

a) The ratio of Shareholder's Funds to Total Assets and the definition of those terms

	Year ending 30/06/2022	Year ending 30/06/2023	Year ending 30/06/2024
Shareholder's Funds to Total Assets	24%	23%	24%

The ratio of Shareholder's Funds to Total Assets (equity ratio) will fluctuate depending on a variety of circumstances including asset renewal and investment cycles. During the three years ended 30 June 2024, the company's equity ratio is forecasted to decline slightly during 2023 before returning to around the June 2022 level in 2024.

"Shareholder's Funds" are represented by the paid up capital, reserves created by the revaluation of specific assets, and retained earnings.

"Total Assets" means the aggregate amount of all current and non-current assets.

b) Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the Shareholder

	Year ending 30/06/2022 \$000	Year ending 30/06/2023 \$000	Year ending 30/06/2024 \$000
Dividend/subvention distributions	Nil	Nil	Nil

c) Other financial forecasts

	Year ending 30/06/2022 \$000	Year ending 30/06/2023 \$000	Year ending 30/06/2024 \$000
EBITDA	38,003	50,429	64,524
Net profit after tax	1,175	8,449	15,731
Cash flow from operations	24,569	37,743	49,489
Capital expenditure	75,049	79,088	80,780
Term borrowings	439,440	480,420	511,560
Shareholder's funds	176,512	184,961	200,692

7 Accounting Policies

a) General Accounting Policies

The Company is a Tier-1 For-profit entity as defined by the External Reporting Board and reports in accordance with Tier 1 For-profit Accounting Standards. The Company's accounting policies are based on NZ IFRS standards and interpretations, as recognised by Chartered Accountants Australia and New Zealand.

NZ IFRS standards and interpretations are subject to change and therefore the Company's accounting policies are also subject to change during the period of the SOI.

b) Particular Accounting Policies

The particular accounting policies, which materially affect the measurement and reporting of financial performance and financial position, are consistent across the DCHL group and are fully listed in the Company's annual report.

8 Dividend Policy

As a regulated business, Aurora Energy has a responsibility to its customers to provide safe, reliable electricity infrastructure. To maintain a reliable network and cater for growth, we are planning to invest in excess of \$790 million in the network over the next decade to be funded by increased revenue, increased borrowings and reduced dividends.

Accordingly, the Board anticipates that no dividend will be paid for at least the next three years during this reinvestment phase.

Should the Board determine that the company's future performance is at a level where a dividend could be considered and approved, the amount of that dividend would be based on 50% of the free cash flow of the Company for the relevant year, subject to the Directors' obligations to act in accordance with their statutory duties and in the best interest of the Company. For the avoidance of doubt, free cash flow is defined as net cash flows from operations less capital expenditure, for the purpose of this dividend policy statement.

The actual level of dividend will be determined by the Directors each year in light of the circumstances that exist at the time.

In arriving at a dividend recommendation, Directors will consider:

- the Company's financial performance, in particular, the cash flows from operations;
- the ratio of the Company's shareholders funds to total assets (equity ratio);
- the Company's future investment plans and profitability thereof;
- the Company's ability to raise loans and the terms thereof; and
- the Company's current cost of borrowings.

Any dividend will be paid by 30 June.

The Company's dividend policy will be reviewed by the Board at least annually and the basis on which dividends are calculated may be subject to change from time to time.

9 Commercial Value of Shareholder's investment

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

This will be considered annually when the Statement of Intent is completed.

10 Transactions with Related Parties

Dunedin City Council is the sole Shareholder of Dunedin City Holdings Limited.

Dunedin City Holdings Limited is the sole Shareholder of Aurora Energy Limited, City Forests Limited, Delta Utility Services Limited, Dunedin City Treasury Limited (DCTL), Dunedin Railways Ltd, Dunedin Venues Management Limited and Dunedin Stadium Property Limited.

Dunedin City Holdings Limited owns 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Dunedin City Holdings Ltd and its subsidiaries will undertake to obtain all debt funding from DCTL, with exceptions as agreed with the Board of Dunedin City Holdings Ltd.

Related Party Transactions

Delta Utility Services Ltd	Operations and maintenance, asset construction
Dunedin City Council	Council rates for properties owned by the Company
Dunedin City Holdings Ltd	Functions appropriate between parent companies and subsidiaries
Dunedin City Treasury Ltd	Provision of debt funding to the Company generating interest payments to DCTL.

DCHL and its subsidiaries will undertake to obtain all debt funding from DCTL, with exceptions as agreed with the Board of DCHL.

11 Information to be provided to the Shareholder

	Quarterly	Half Yearly	Annual
Key financial performance indicators	X	X	X
Statement of Financial Performance		X	X
Statement of Financial Position		X	X
Statement of Cash Flows		X	X
Statement of Service Performance against SOI targets	X	X	X
Statement of Movement in Equity		X	X
Notes to the Financial Statements		X	X
Directors' Report		X	X
Auditor's Report			X
Draft Statement of Intent			Prior to 1 February
Final Statement of Intent			Prior to 30 June

12 Working with the Shareholder

The company will undertake to keep the Shareholder informed of all substantive matters, in accordance with the performance targets above. The Company will work to build a culture of accountability and constructive working practices between the Company and the Shareholder. It is expected that any conflicts that may arise between the Company and the Shareholder will be resolved directly between the Company and the Shareholder, in accordance with appropriate governance practices.

13 Acquisition/Divestment of Assets or Shares in any Company or Organisation

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million, provided however that this approval requirement does not apply to expenditure set out in the Company's Asset Management Plan. For the purpose of this section, "asset(s)" includes a group of assets similar in type, cost and useful life that are purchased together and can be identified and maintained as one asset or group of assets following purchase.

If the Directors intend that the Company or its subsidiaries should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$5 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority of \$5 million.

14 Compensation Sought

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities.

At present, the Company does not have any activities in respect of which its Board wishes to seek compensation from any local authority.

15 Group Facility Use

The Company will undertake to operate "Group" purchasing of goods and services, unless this would cause the company to breach regulatory requirements or it is demonstrated conclusively to the Shareholder that the total combined cost of such Group purchasing to the Group and Dunedin City Council (including the costs of ceasing any such Group purchasing), is greater than any alternative identified.

16 Other matters as agreed by the Shareholder and the Board

- a) The Company is committed to open and transparent engagement with its stakeholders and customers and will maintain a publicly available and actively promoted Customer and Stakeholder Charter and public Information Disclosure Policy consistent with its responsibilities as an Energy Company providing essential infrastructure services.
- b) The Company will not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with the Dunedin City Council's ethical position. For reference, those activities are: tobacco, armaments, fossil fuel extraction, gambling and pornography.
- c) The Company will disclose in its Annual Report the proportion of its workforce receiving the Living Wage (as calculated by the New Zealand Family Centre Social Policy Unit – currently \$22.10/hour).