

Statement of Corporate Intent

Date: 1 July 2022



Contents

1.0 Role and Objectives	1
1.1 Transpower's Role	2
1.2 Transpower's Objectives	2
2.0 Transpower's Strategy and Business Environment	4
2.1 Our Strategic and Performance Framework.....	5
2.11 Transmission Services.....	6
2.12 System Operation Services.....	6
2.2 Key Assumptions	7
3.0 Performance Measures and Targets	8
3.1 Safety and Our People Performance Targets	9
3.2 Service Performance Targets.....	10
3.3 Asset Health Target.....	11
3.4 Financial Performance Targets	12
3.5 Sustainability Targets and Actions.....	12
4.0 Capital Investment and Dividend Policy.....	14
4.1 Capital Structure and Investment.....	15
4.2 Dividend Policy and Estimates.....	16
5.0 Commercial Valuation.....	17
6.0 Other Matters.....	21
6.1 Information to be provided to Shareholding Ministers	22
6.11 Consultation	22
6.2 Procedures for Share Subscriptions or Purchases.....	23
6.3 Activities for which Compensation is sought.....	23

6.4 Accounting Policies	23
6.5 Other Matters Agreed by the Shareholding Ministers and the Board	24
7.0 Appendices	25
7.1 Appendix 1: Subsidiary Companies.....	26
7.11 Our Current Subsidiaries	26
7.12 Functions of Subsidiary Companies.....	26
7.2 Appendix 2: Updates to Performance Targets for 2022/23.....	27
7.21 Safety Performance Targets	27
7.22 Operational Performance Targets not included in SCI	28
7.23 Financial Performance Targets	28
7.24 Sustainability Targets	29
7.25 Capital Structure and Investment Estimates	29
7.3 Appendix 3: Definitions.....	30
7.31 Definition of Safety Performance Targets	30
7.32 Definition of Operational Performance Targets.....	30
7.33 Definition of Financial Performance Targets	30
7.34 Definitions Relating to Capital Investment.....	31
7.4 Appendix 4: SOE Portfolio Measures	32



This Statement of Corporate Intent sets out Transpower’s activities, objectives and performance targets for three years from 1 July 2022.



This Statement of Corporate Intent (SCI) is submitted by the Board of Directors of Transpower New Zealand Limited, in accordance with Section 14 of the State-Owned Enterprises Act 1986 (the Act). It sets out the Board’s overall intentions and objectives for Transpower New Zealand Limited and its subsidiary companies (the Transpower Group)¹ for the year commencing 1 July 2022 and the following two financial years up to 30 June 2025.

The Transpower Group is referred to as “Transpower” throughout this SCI.

¹ The companies that comprise the Transpower Group are listed in Appendix 1.



1.0

Role and Objectives



1.1 Transpower's Role

Transpower is central to the New Zealand electricity industry, connecting New Zealanders to their power system through safe, smart solutions for today and tomorrow. Our principal commercial activities are:

- as grid owner, to reliably and efficiently transport electricity from generators to distributors and large users
- as system operator, to operate a competitive electricity market and deliver a secure power system.

1.2 Transpower's Objectives

Our principal objective, as set out in Section 4 of the Act, is to operate as a successful business.

Section 4 Objective	Our Operations
As profitable and efficient as comparable businesses that are not owned by the Crown.	<ul style="list-style-type: none">• Within regulatory and commercial parameters:<ul style="list-style-type: none">• Deliver and operate a safe, reliable, cost-efficient transmission grid that meets New Zealand's needs now and into the future.• Deliver an efficient system operator service that supports competition and provides a reliable and efficient supply of electricity.
A good employer.	<ul style="list-style-type: none">• Promote a high level of health, safety and wellbeing, taking all practicable steps to provide safe working conditions.• Maintain a well-qualified and motivated workforce that we treat fairly and properly in all aspects of recruitment, retention and employment.
An organisation that exhibits a sense of social 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.	<ul style="list-style-type: none">• Build and maintain effective relationships with landowners, occupiers and other community representatives and interest groups affected by our activities.• Transpower is committed to the principles of Te Tiriti o Waitangi in our operations as an SOE and as a company owned by the Crown as Treaty partner. We seek to build and maintain effective relationships

Section 4 Objective	Our Operations
	<p>with Māori, including acknowledging their interests in land.</p> <ul style="list-style-type: none"> • Work in partnership with communities to plan, deliver, and operate efficient and effective infrastructure while managing adverse social and environmental impacts of our activities.

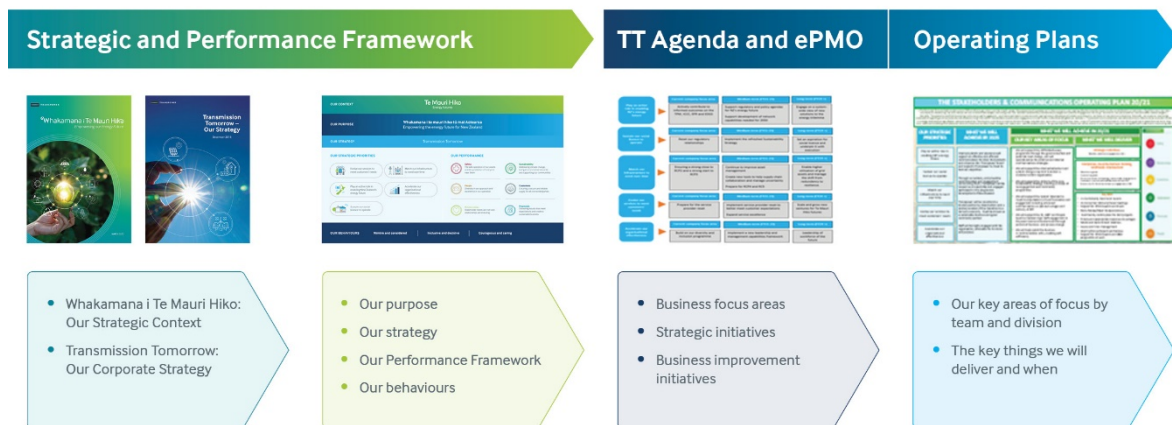
2.0

Transpower's Strategy and Business Environment



2.1 Our Strategic and Performance Framework

We have a company-wide strategic and performance framework that links our purpose and values to our strategic priorities plans and performance measures. This is shown below:



Whakamana i Te Mauri Hiko describes our changing context, with climate change and other key trends creating the foundation for a scenario-based view of New Zealand's Energy Future. *Transmission Tomorrow – Our Strategy*² builds on this context to describe our business choices and identifies our five key strategic priorities:

- evolve our services to meet customers' needs
- play an active role in enabling New Zealand's energy future
- sustain our social licence to operate
- match our infrastructure to need over time
- accelerate our organisational effectiveness.



² transpower.co.nz/about-us/transmission-tomorrow

2.11 Transmission Services

The Commerce Commission regulates grid services, which account for over 90% of our revenue, under Part 4 of the Commerce Act (1986). Part 4 aims to ensure we:

- have incentives to invest
- have incentives to innovate, to improve efficiency and to provide services at a quality that reflects consumer demand;
- share the benefits of efficiency gains with consumers, including through lower prices
- are limited in our ability to extract excessive profits.

We publish an update of our asset management strategies and our service and expenditure plans each year³. In November 2019 the Commerce Commission approved our operating and capital expenditure allowances for RCP3, the five-year regulatory period operating from 2020 to 2025. After extensive review the Commission approved 98% of the funding we requested and set our regulated rate of return. Overall, we demonstrated we are on a path of improving network performance and efficiency and managing increasing reinvestment pressures for lines built during a period of major grid expansion from the 1950s to 1980s.

New grid connections are typically funded directly by the connecting customer under an access regime governed by the Electricity Authority; these account for less than 4% of our revenue.

2.12 System Operation Services

The Electricity Industry Act (2010) requires the Electricity Authority to contract with Transpower for operation of the New Zealand power system. Our System Operator Service Provider Agreement (SOSPA) provides a fixed fee for most of these services and includes mechanisms for agreeing funding for service enhancements and for setting annual performance and delivery incentives. System operator services account for 5% of our revenue. The fixed fee component currently covers the period 2022 to 2025.

³ We update our Integrated Transmission Plan annually and publish it on our website – transpower.co.nz/keeping-you-connected/industry/rcp3/rcp3-updates-and-disclosures

2.2 Key Assumptions

Our financial plan is based on the following key assumptions:

- our operating expenditure will be \$341 million in 2022/23
- renewal capex will average \$278 million across the next three years
- grid development capex will average \$137 million across the next three years
- regulatory allowances are adjusted for the latest CPI information.

3.0

Performance Measures and Targets



We measure our performance against a range of safety, operational, financial and non-financial performance targets. These targets are set out below. A comparison with prior-year performance targets is in Appendix 2.

3.1 Safety and Our People Performance Targets

We strive to provide a working environment in which there are no fatalities or injuries causing permanent disability. In addition, we continuously seek to reduce the rate at which our activities cause injury⁴.

Safety Performance Targets	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Number of fatalities or injuries causing permanent disability	0	0	0	0
Total Recordable Injury Frequency rate (TRIFR)	≤ 6	≤ 6	≤ 6	≤ 6
High Potential Incident Frequency Rate (HPIFR)	≤ 3	≤ 3	≤ 3	≤ 3

We recognise that our people are key to our success. An engaged workforce can lead to innovative solutions to overcome challenges and realise our opportunities.

Our People	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Staff engagement	Top 25%	Top 25% percentile score for energy & utilities sectors (12 month rolling average)		

⁴ Refer to Appendix 3 for definitions of safety performance targets.

3.2 Service Performance Targets

We have set our service measures and targets for 2022/23 aligned to the quality standards set out in our RCP3 determination. These encompass:

- **Grid Unplanned Interruptions** – targets for frequency (occurrence) GP1 and average duration of interruptions GP2. There are different targets for the six subcategories under each measure.

The target for GP1 and GP2 is to achieve four or more of the six Point of Service sub-categories limits under each measure. Not meeting the quality standards can result in an enforcement process by the Commerce Commission, which can lead to imposition of pecuniary penalties.

If the target of ≥ 4 is achieved, the quality standard is met. If the target is not met in the current year there may not be a breach of the quality standard, depending on the performance against the target in previous years.

- **Grid availability** – there are quality standard targets for the inter-island high-voltage direct current (HVDC) link availability (AP1) and for selected (i.e. market-sensitive) assets availability within our high-voltage alternating current (HVAC) (AP2) networks.

Each year we agree system operator service targets with the Electricity Authority. There is a financial incentive to meet or outperform these targets; we aim to achieve above a revenue-neutral outcome or at least a result above 70%.



Service Performance Targets	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
GP1 Achieve collars for occurrence (unplanned interruptions)	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6
GP2 Achieve collars for average unplanned interruption duration	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6
AP1 HVDC availability	97.19%	>96.75%	>96.75%	>96.75%
AP2 HVAC availability	97.6%	>98.6%	>98.6%	>98.6%
Achieve System Operation Targets	70%	70%	70%	70%

3.3 Asset Health Target

The ability to predict time-dependent risk of physical assets is an essential component of asset management. Our Asset Health Framework provides a common Asset Health (AH) score approach across asset classes known as the Asset Health Index (AHI).

An AHI is an indicator representing an asset's proximity to the end of its useful life, being the period when an asset will either need replacement or major life-extending refurbishment. This period is hard to predict, but when a combination of information is considered, an AHI can inform the expected time when intervention is likely to be required.

We measure and report the AHI for six asset classes. Two classes (power transformers and outdoor circuit breakers) are set as RCP3 quality standards. Our performance targets are set in alignment to the RCP3 quality standards.

The target is set as the percentage of assets with an AHI of eight or higher.

Asset Health Targets	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Asset Health Measures				
Power transformers	≤ 3.68%	≤ 5.37%	≤ 8.65%	≤ 12.03%
Outdoor circuit breakers	≤ 2.37%	≤ 5.65%	≤ 7.63%	≤ 8.27%

3.4 Financial Performance Targets

Our four key financial performance targets⁵ are focused on:

- **Sustaining our credit rating** – we track free funds from operations (FFO) to interest cover and FFO to debt. Sustaining our credit rating is important for maintaining good access to capital markets and for achieving favourable pricing
- **Balance sheet strength** – we hold leverage at a level that provides an efficient return on equity, while maintaining resilience to withstand financial shocks
- **Financial returns** – we measure our return on equity and overall return on capital employed. Return on capital employed tracks relatively close to the allowable return on our regulated transmission assets.

Our credit strength and financial return metrics were impacted by the reset of the allowable return on our transmission assets for RCP3. This impact flowed into transmission prices from 1 April 2020.

Financial Performance Targets	Target Credit rating metrics	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Free Funds from Operations (FFO) Interest Coverage (# of times)	>2.8	6.0	5.2	4.8	5.1
FFO / Debt	>12.5%	13.5%	13.9%	12.8%	13.8%
Return on equity		7.6%	6.1%	6.4%	9.1%
Return on capital employed		3.7%	3.5%	3.6%	4.5%

3.5 Sustainability Targets and Actions

Transpower's recently refreshed sustainability strategy has a clear focus on the impacts of climate change. Climate change drives our strategy to play an active role in enabling New Zealand's energy future, including the development of our Net Zero Grid Pathways work, a view of how the grid has to evolve to meet a net zero carbon future, and how we match our workforce capacity and capability to future need.

⁵ Refer to Appendix 3 for definitions of the financial performance targets.

This year we have set a target of delivering ‘Year 3’ of our Sustainability Strategy milestones. These include a continued focus on measuring and reducing our greenhouse gas emissions, waste minimisation activities and sustainable design opportunities.

We have also set a target for delivering ‘Year 3’ milestones to implement Task Force on Climate-related Financial Disclosures (‘TCFD’) to ready ourselves for disclosure under XRB’s Aotearoa New Zealand Climate Standard 1 at the end of FY 24 as well as annual sustainability reporting. This will demonstrate our climate change governance, strategy, risk management, metrics and targets, including our operational carbon footprint.



4.0

Capital Investment and Dividend Policy



4.1 Capital Structure and Investment

Transpower's forecast capital structure at 30 June 2022 and for the following three financial years is set out below.

Capital Structure and Investment ⁶	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Debt (\$ million)	2,988	2,985	3,119	3,277
Equity (\$ million)	1,780	1,767	1,758	1,799
Capital Investment (\$ million)	327	341	440	523

Most investment in transmission assets (and assets required to support our transmission services) is recovered through our regulated revenues. A key objective of the Commerce Act is to ensure we have incentives to invest. Some investment in transmission assets (forecast to be 8% of total capex in the three years from 1 July 2022) is recovered through bilateral contracts with transmission customers, most of which are electricity distribution businesses or large generators.

Investment in system operation assets is recovered through a contract with the Electricity Authority, the costs of which are recovered by the Electricity Authority through levies which ultimately are paid by consumers.

We maintain a capital structure that will enable us to manage future capital requirements without recourse to equity injections from our shareholders. Retaining our credit rating ensures access to a wide range of debt capital markets allowing us to fund our balance sheet efficiently.

We have prudent liquidity management policies, consistent with our credit rating, to ensure we have sufficient funding, and to provide protection against any unexpected deterioration in credit markets.

⁶ The figures in this table are expressed on the basis of New Zealand International Financial Reporting Standards (IFRS) in accordance with Transpower's Accounting policies. Refer to Appendix 3 for definitions relating to capital investment.

4.2 Dividend Policy and Estimates

We will distribute funds attributable to our shareholder and surplus to our financing and operating requirements to our shareholder. We will determine the level of surplus funds by having regard to:

- debt and coverage ratios which enable us to maintain our long-term credit rating to ensure access to funding markets
- a sustainable capital structure to enable us to fund long-term capital expenditure
- a profile across the five-year RCP which enables us to meet our dividend policy and set a level of dividend which is consistent across the period.
- Consistent with the stable nature of our underlying business and the influence of periodic regulatory resets on financial returns, we plan for a consistent dividend level across each regulatory control period. This level is reviewed as we progress through the period.

The dividend level for each control period is impacted by the allowable return on transmission assets for that period. The regulated rate of return for our next five-year regulatory control period (RCP3 – 2020/21 to 2024/25) is set at 4.57% (7.19% in RCP2). The dividend level is an appropriate balance between returning dividends to the shareholder and maintaining appropriate leverage levels over the period.

Dividends and Guidance	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Estimate of dividends declared (\$ million)	120	120	120	120
% Free cash Flow after maintenance capex	59%	55%	96%	102%

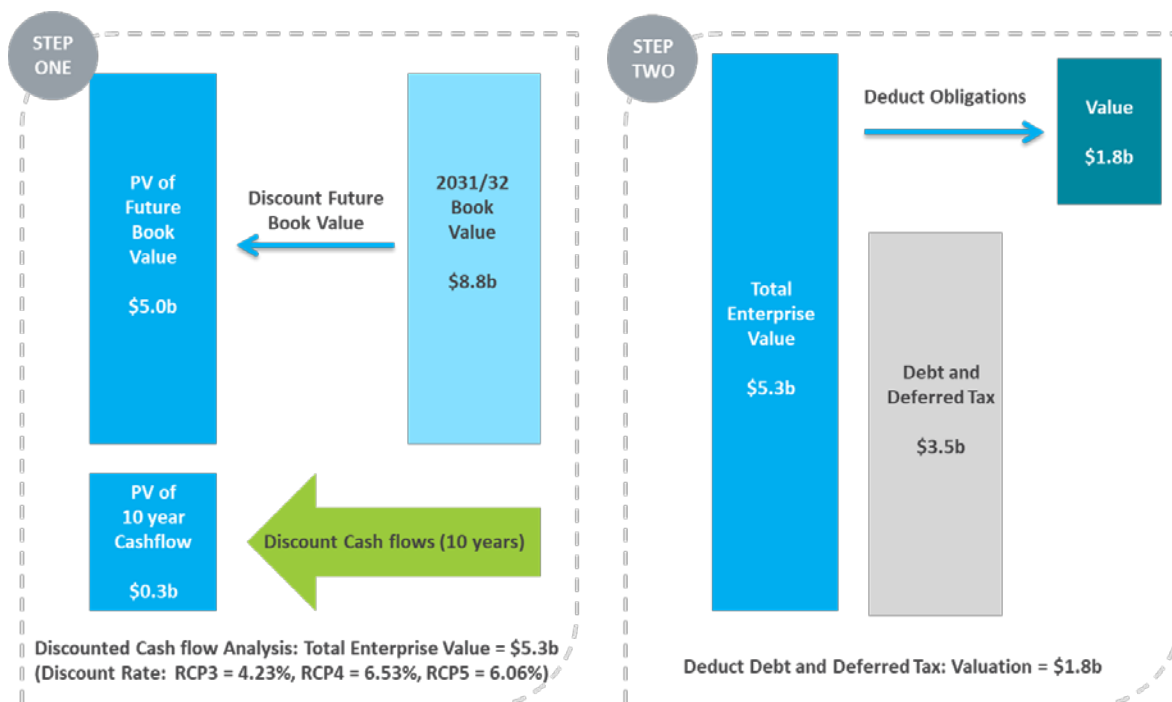
We normally schedule dividend payments into an interim dividend paid in March, and a final dividend paid in September. In recommending the payment of dividends Directors will comply with obligations under the Companies Act.

5.0

Commercial Valuation



The Board's estimate of the commercial value of the Crown's investment in Transpower at 30 June 2022 is \$1.8 billion, \$0.1 billion lower than last year's valuation of \$1.9 billion. This estimate is based on the methodology illustrated below.



The valuation is based on the present value of forecast cash flows for the next 10 years plus the present value of the forecast book value of assets at 30 June 2032. Combining these components produces an estimated total enterprise value of \$5.3 billion. Deducting net debt and deferred tax liabilities of \$3.5 billion produces an estimated commercial value of \$1.8 billion.

The valuation compares with a commercial valuation as at 30 June 2021 of \$1.9 billion. The key reasons for the change in commercial value are

- an increase in Year 4 to year 10 cashflows of \$641m due to due higher forecast revenue based on a higher WACC forecast for RCP4 and RCP5.
- a decrease in cashflows of \$437m for years 4 to year 10 as result of higher capital investment over RCP4 and RCP5,
- an increase in terminal value of \$278m due to the higher capex investment.
- an increase in the year 4 to year 10 discount rates (WACC) from 4.41% to 6.5% due to the higher forecast interest rates compared to the previous year resulting in decrease in discounted cashflows of \$714m.
- a reduction in debt of \$195m.

	Source	Comment
Cash flows	Financial Plan	Regulatory arrangements support a relatively reliable forecast of cash flows for RCP3. We use forward rates to forecast the likely allowable return for RCP4. Are on an after-tax basis, using nominal future cash flows set out in our Business Plan
Terminal value	Financial Plan	Terminal value based on the forecast asset book value at 30 June 2032, discounted back to June 2022 (with no terminal growth factor) Using the forecast closing asset book value amounts and assuming the Commerce Commission will allow recovery of our actual weighted average cost of capital (WACC) beyond 30 June 2032.
Discount factor	Allowable Rate of Return	For simplicity, we assume the discount factor matches our allowable return for the corresponding regulatory period. RCP3 4.23%, RCP4 6.5% and RCP5 6.0%

Other key points are that the valuation:

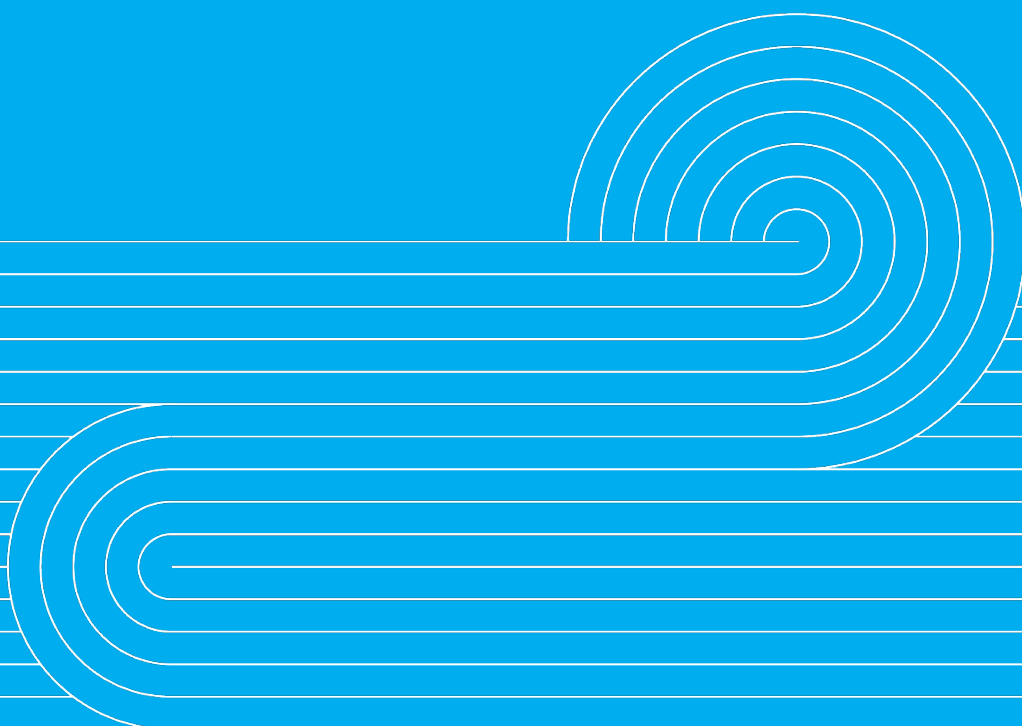
- assumes the continuation of the current ownership structure and current regulatory rules within which Transpower operates
- revenues are based on regulatory rules and allowable returns. The model uses consistent WACC return for revenue and discount factors

The financial model was prepared internally for the purpose of determining the commercial value as at 30 June 2022 and was reviewed by EY for logical integrity and mathematical accuracy. Furthermore, EY reviewed the valuation in methodology in 2018.



6.0

Other Matters



6.1 Information to be provided to Shareholding Ministers

To enable Shareholding Ministers to assess the value of their investment in Transpower, any information that would normally be supplied to a controlling private shareholder will be made available. An Annual Report for each financial year, including audited financial statements, will be submitted in accordance with Section 15 of the Act. The Annual Report will:

- contain sufficient information to enable an informed assessment to be made of Transpower's operations, including a comparison with the SCI
- state the dividend payable to the Crown for the relevant financial year.

We will also submit to Shareholding Ministers:

- half-yearly reports, in accordance with Section 16 of the Act, and quarterly reports with such details as are necessary to permit an informed assessment of the company's performance during that reporting period
- our Business Plan and a draft SCI, which will be made available prior to commencement of the financial year to which they relate.

We will also provide other information relating to the affairs of the company requested by the Shareholding Ministers pursuant to Section 18 of the Act and in accordance with the "no surprises policy" of Transpower's shareholding Ministers, and the Treasury's Owner's Expectation Guide.

6.11 Consultation

We will, in relation to any single transaction or series of transactions, consult with Shareholding Ministers on items outside normal operations and having a material impact on our financial position not contemplated in the Business Plan. This will include:

- any substantial capital investment in activities within the scope of core business
- any substantial expansion of activities outside the scope of our core business
- subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve significant overseas equity investment or are outside of our core business
- sale or other disposal of the whole, or any substantial part, of the business undertaking
- where Transpower, or its subsidiaries, hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of Transpower), they will not sell or otherwise dispose of any shares in that company without first giving written notice to the Shareholding Ministers of the intended disposal

- We will consult on any specific items included in the Business Plan as agreed with Shareholding Ministers from time to time. For the purpose of this document, a substantial investment outside our core business would be any transaction or series of transactions resulting in a maximum potential cash outflow in excess of \$50 million.
- consultation as specified in the Owners Expectations Guide.

6.2 Procedures for Share Subscriptions or Purchases

Subscriptions for shares in any company or interests in any other organisation will, where material, be subject to consultation with Shareholding Ministers.

6.3 Activities for which Compensation is sought

We will, in accordance with Section 7 of the Act, seek compensation sufficient to allow Transpower's position to be restored if the Government wishes us to undertake activities or assume obligations that in our view will:

- result in a reduction of Transpower's profit or net worth; or
- modify our assets in ways that reduce ongoing security and reliability.

There are currently no such activities for which we are seeking, or have sought, compensation.

6.4 Accounting Policies

Transpower's financial statements are prepared in accordance with the Financial Reporting Act (1993). This Act requires compliance with generally accepted accounting practice (GAAP) in New Zealand. The financial statements comply with the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and other applicable Financial Reporting Standards. The financial statements comply with International Financial Reporting Standards (IFRS). Transpower is not a public benefit entity for the purposes of NZ IAS 1 Presentation of Financial Statements.

The detailed accounting policies applied in the preparation of the financial statements are consistent with the accounting policies disclosed in the 2021 Integrated Annual Report⁷.

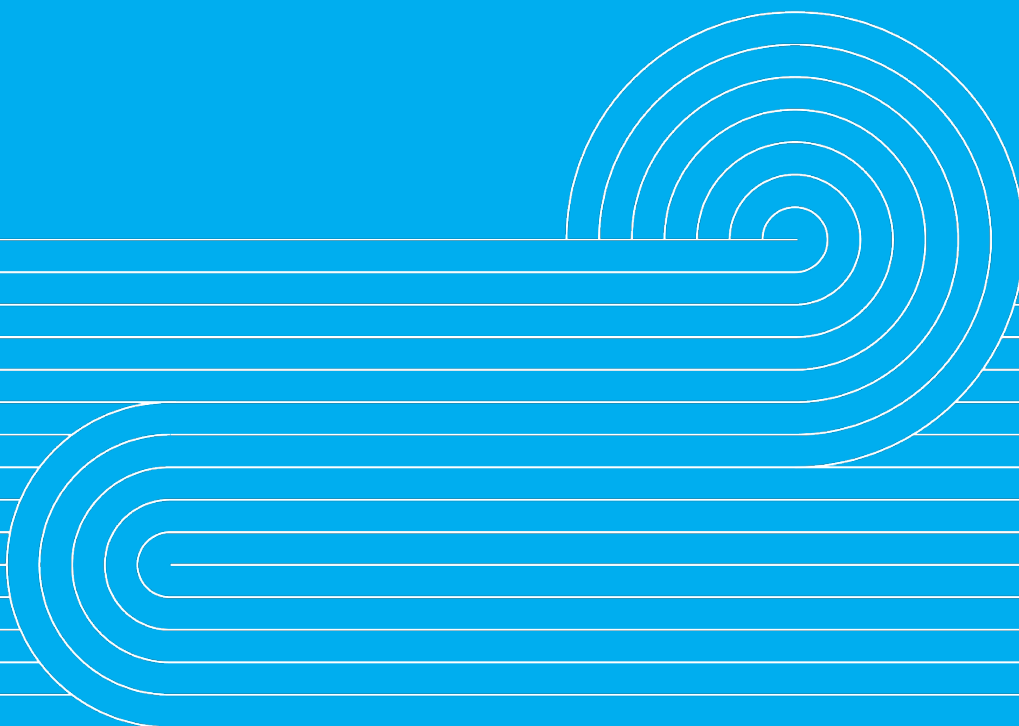
6.5 Other Matters Agreed by the Shareholding Ministers and the Board

No other matters have been agreed by the Shareholding Ministers and the Board for inclusion in this statement pursuant to section 14(2)(j) of the Act.

⁷ [202021-integrated annual-report](#)

7.0

Appendices



7.1 Appendix 1: Subsidiary Companies

The terms 'share', 'Shareholding Ministers', and 'subsidiary' have the same meanings as in Section 2 of the Act. Transpower will ensure, at all times, that:

- control of the affairs of every subsidiary of Transpower is exercised by a majority of the Directors appointed by Transpower
- a majority of the Directors of every subsidiary of Transpower are persons who are also Directors or employees of Transpower, or who have been approved by the Shareholding Ministers for appointment as Directors of the subsidiary.

7.11 Our Current Subsidiaries

The Transpower Group contains the following subsidiary companies.

Name	Holding
Halfway Bush Finance Limited	100%
TB and T Limited	100%
Risk Reinsurance Limited	100%
emsTradepoint Limited	100%

7.12 Functions of Subsidiary Companies

Halfway Bush Finance Limited and TB and T Limited were formed during the 2003 cross border lease transaction. This transaction has subsequently been unwound and only the head lease agreement remains. These companies are dormant and do not undertake trading activities. Their purpose is to hold assets on behalf of the Transpower Group.

Risk Reinsurance Limited (RRL) is our captive insurance subsidiary. It is the primary insurer on our material damage and cables insurance programmes (both electricity and fibre optic) and wholly insures some minor programmes. RRL reinsures a portion of the material damage and cable risk with third party insurers. RRL is registered in the Cayman Islands but is domiciled in New Zealand for tax purposes.

emsTradepoint Limited is a commodity exchange designed to provide anonymity, transparent pricing and transactional certainty to physical energy markets. Launched in late 2013, it currently lists natural gas contracts for delivery in New Zealand and runs a carbon trading exchange.

7.2 Appendix 2: Updates to Performance Targets for 2022/23

The following tables compare the performance targets and measures for the 2022/23 year set out in this SCI with those set out in the previous SCI.

7.21 Safety Performance Targets

Safety Performance Targets	Previous SCI 2021/22	Current SCI 2022/23
Number of fatalities or injuries causing permanent disability	0	0
Total Recorded Injury Frequency Rate (TRIFR)	≤ 6.0	≤ 6.0
High Potential Incident Frequency Rate (HPIFR)	≤ 3.0	≤ 3.0

Our People	Previous SCI 2021/22	Current SCI 2022/23
Staff engagement	Top 25% percentile score for energy & utilities sectors (12 month rolling average)	

7.22 Operational Performance Targets not included in SCI

Service Performance Targets	Previous SCI 2021/22	Current SCI 2022/23
GP1 Achieve collars for occurrence (unplanned interruptions)	≥ 4 out of 6	≥ 4 out of 6
GP2 Achieve collars for average unplanned interruption duration	≥ 4 out of 6	≥ 4 out of 6
AP1 HVDC availability	>96.75%	>96.75%
AP2 HVAC availability	>98.6%	>98.6%
Achieve System Operation targets	70%	70%

Asset Health Measures	Previous SCI 2021/22	Current SCI 2022/23
Power transformers	≤ 5.37%	≤ 5.37%
Outdoor circuit breakers	≤ 5.65%	≤ 5.65%

7.23 Financial Performance Targets

Financial Performance Targets	Previous SCI 2021/22	Current SCI 2022/23
FFO Interest Coverage (# of times)	5.8	5.2
FFO / Debt %	13.6%	13.9%
Return on Capital Employed (%)	3.9%	3.5%
Return on Equity (%)	7.9%	6.1%

7.24 Sustainability Targets

The sustainability measures for 2022/23 are environmental measures focused on climate change and sustainability reporting initiatives. See section 3.5 for detail.

Sustainability Targets	Previous SCI 2021/22	Current SCI 2022/23
Environmental		
Deliver milestones to implement a TCFD framework.	Deliver 'Year 2' milestones	Deliver 'Year 3' milestones
Deliver milestones of Sustainability Strategy and annual ESG Reporting	Deliver 'Year 2' milestones	Deliver 'Year 3' milestones

7.25 Capital Structure and Investment Estimates

Capital Structure and Investment	Previous SCI 2021/22	Current SCI 2022/23
Debt (\$ million)	3,420	2,985
Equity (\$ million)	1,676	1,767
Capital Investment (\$ million)	452	341
Estimated Amount to be Distributed by Dividend (\$ million)	120	120

7.3 Appendix 3: Definitions

7.31 Definition of Safety Performance Targets

Number of fatalities or injuries causing permanent disability	Number includes fatalities or injuries causing permanent disability for all Transpower's staff and contractors.
High Potential Incident Frequency Rate (HPIFR) (includes injuries and near misses)	Number of incidents reported where there was potential for serious injury or fatality (Level 1 and Level 2) based on assessment against the Transpower risk assessment matrix. Rate is calculated per million hours worked and reported as a rolling 12-month frequency rate.
Total Recordable Injury Frequency Rate (TRIFR)	Total number of lost time and medical treatment injuries multiplied by 1,000,000 hours divided by the total number of hours worked in the year.

7.32 Definition of Operational Performance Targets

Operational performance targets are based on our RCP3 network service targets. Our Grid Outputs Report sets out detailed definitions⁸.

7.33 Definition of Financial Performance Targets

Free Funds from Operations (FFO) to Interest Coverage (# of times)	Cash Flow from Operations adjusted for changes in working capital plus interest, divided by interest costs.
Free Funds from Operations (FFO) to Debt (%)	Cash Flow from Operations adjusted for changes in working capital plus interest costs, divided by net debt.
Return on Capital Employed (%)	Earnings before interest, tax and changes in the fair value of financial instruments (EBITF) less tax

8

https://www.transpower.co.nz/sites/default/files/publications/resources/Grid%20Outputs%20Report%202019_0.pdf

	<p>(adjusted for interest tax shield), divided by average capital employed.</p> <p>Capital employed is made up of current assets (excluding derivatives) plus fixed assets (excluding works under construction), less current liabilities (excluding current debt, derivatives, interest payable and income in advance).</p>
Return on Equity (%)	<p>Profit After Tax (excluding changes in the fair value of financial instruments) divided by average equity (excluding cumulative changes in the fair value of financial instruments).</p>

7.34 Definitions Relating to Capital Investment

Debt (\$ million)	Current and non-current debt and finance leases.
Equity (\$ million)	Share capital, reserves and accumulated retained earnings.
Capital Investment (\$ million)	Total capital expenditure, excluding net property acquisitions/disposals.



7.4 Appendix 4: SOE Portfolio Measures

This Appendix sets out performance measures based on standardised SOE reporting and definitions (definitions are on the Treasury website⁹). Some of these measures do not directly compare with other measures in this SCI (see notes below).

	2021/22 Forecast	2022/23 Target	2023/24 Target	2024/25 Target
Shareholder Returns				
Dividend yield %	6.5	6.6	6.6	6.6
Return on equity ^A %	8.5	6.1	6.3	9.0
Total shareholder return %	4.5	6.6	6.6	6.6
Profitability/Efficiency				
Operating margins %	64.1	62.3	60.5	63.2
Return on capital invested ^B %	5.6	5.4	5.6	6.9
Leverage/Solvency				
Debt to EBITDA	5.1	5.2	5.5	5.2
Gearing ratio (Net) %	62.1	62.3	63.5	64.2
Interest cover (# of times)	3.4	2.9	2.8	3.4
Growth				
Capital replacement ratio	1.2	1.3	1.6	1.9
Revenue growth ratio	0.97	1.02	1.01	1.09
Underlying EBITDA ratio	0.92	0.99	0.98	1.14
Other				

⁹ <https://www.treasury.govt.nz/sites/default/files/2020-07/owners-expectations-july2020.pdf>

Consolidated shareholder funds to total assets ^C	32%	31%	30%	30%
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Notes

A – Ratio does not adjust for fair value movements. Our ratio also adjusts the Income Statement and equity for fair value.

B – Ratio excludes tax. Our calculation includes tax and adjusts tax for the effect of interest costs.

C – This measure is required under the State Owned Enterprises Act 1986 Section 14 (2)(c). Consolidated Shareholder funds is equal to equity from the statement financial position based on New Zealand International Financial Reporting Standards (IFRS) in accordance with Transpower's Accounting policies. Total Assets are from the Statement of Financial Position per IFRS.

