



B.29 [160]

Energy sector: Results of the 2014/15 audits



Photo acknowledgement:
©mychillybin.co.nz Kathleen Shepherd

Energy sector: Results of the 2014/15 audits

Presented to the House of
Representatives under section 20 of
the Public Audit Act 2001.

June 2016

ISBN 978-0-478-44244-1

Contents

Auditor-General's overview	3
Part 1 – Introduction	5
Why we prepared this report	5
What do we mean by “the energy sector”?	5
The entities covered by this report	6
The regulatory environment	8
Part 2 – The audit reports we issued in 2015	10
Our audits of annual financial statements and service performance information	10
Timeliness in annual reporting	12
The audits of regulatory information	13
Common issues arising in the non-standard audit reports	15
Part 3 – Our audits of electricity distribution businesses	18
The regulatory environment	18
Governance of electricity distribution businesses	19
Investments by electricity distribution businesses	19
Emerging technologies	23
Part 4 – Our audits of other energy-sector entities	25
The control environment	25
Valuation of property, plant, and equipment	26
Readability of financial statements	28
Appendices	
1 – Entities that we audit	29
2 – Non-standard audit reports issued in 2015	33
3 – Deciding on the type of audit report	36
Figures	
1 – The structure of the electricity industry	6
2 – Audit reports issued, by type of regulatory audit completed	13
3 – Summarised financial information from 2011/12 to 2014/15 for the Solid Energy group	16

Auditor-General's overview

This is the first report from my Office that focuses on the results of the audits of public entities in the energy sector.

The energy sector in New Zealand is diverse and made up of a mixture of public and private entities. Most of the public entities in this sector are electricity distribution businesses responsible for distributing electricity to consumers.

This report outlines the trends that are apparent from the audits of these electricity distribution businesses. Electricity distribution businesses are asset-intensive entities, so they must plan and carry out good asset management. Electricity networks require continuous replacement and upgrading to ensure safe, reliable supply.

I plan to carry out further work to produce case studies on the asset management practices of selected electricity distribution businesses. In particular, I want to examine how these entities are investing in ensuring that their networks are able to continue to deliver the services required for future generations. This will involve considering how they intend to take advantage of emerging technologies.

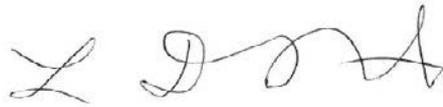
Because many of the companies in the electricity industry are monopolies they are also subject to regulatory regimes affecting their core electricity distribution business. These regulatory regimes are designed to limit price increases, which can affect future profitability. My staff audit the information reported under the regulatory requirements for public entities.

Electricity distribution businesses often tell me that the regulations are complex, so they need to invest much effort in ensuring that their staff understand the detail of the regulations to prepare the required information. The companies also noted that they continue to consider the effect of regulating revenue and therefore profits from their core business when making investment decisions.

Many companies have made, or are planning to make, investments seeking revenue sources beyond their core electricity distribution business. Because of the additional risk these investments bring, I urge electricity distribution businesses to work through appropriate due diligence processes in making these investments and to set up robust corporate governance and management arrangements. Investments in core business should not be compromised.

Generally, my auditors have found that those responsible for governing public entities in the energy sector have the appropriate skills and experience to manage their core operations. For entities making an investment, particularly outside the energy sector, those charged with governance must be careful to apply appropriate judgements based on good business cases.

I am particularly pleased with the initiatives of the mixed-ownership model companies in 2014/15 to make their financial statements more readable. Each took a different approach, and I encourage other entities in the energy sector to look to the examples they have set for potential improvements to their own reporting.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

21 June 2016

Introduction

- 1.1 In this Part, we explain why we prepared this report and what we mean by “the energy sector”, note which entities in the sector we audit, and outline the regulatory requirements that the sector must comply with and be audited against.

Why we prepared this report

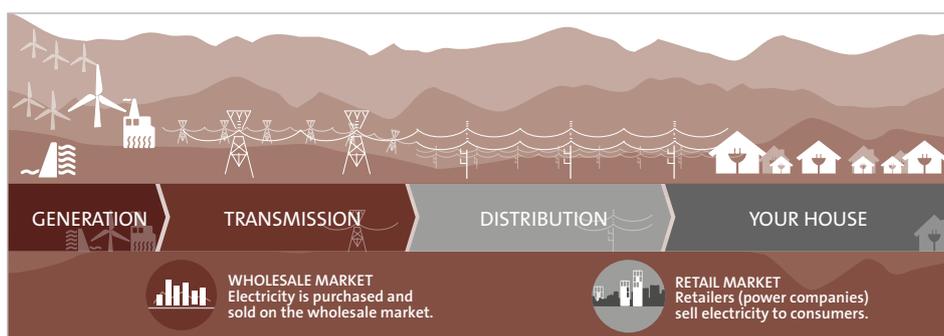
- 1.2 This is the first report we have prepared about the energy sector. It outlines what we mean by, and what we do in, the energy sector. We also have a duty to report from time to time on the matters arising from our audits, including the types of audit reports issued. In previous years, our findings for this sector have appeared in separate reports.
- 1.3 Our work in the energy sector has identified several common trends, which we outline in this report. We have not formed a view on the trends we have identified. Instead, we describe them to prompt further discussion in the sector and among its stakeholders.

What do we mean by “the energy sector”?

- 1.4 Energy is produced and used in diverse ways. The main source of energy generated in New Zealand is hydro power. Energy is also generated from gas, geothermal heat, coal, wind, and oil. Most of these energy sources are used to produce electricity. Oil is primarily used as fuel for transport but accounts for a small amount of electricity generation.
- 1.5 A large part of the energy sector is the electricity industry, which is in four parts:
- generators of electricity;
 - Transpower New Zealand Limited (Transpower), the owner of the national grid of transmission lines;
 - electricity distribution businesses that own and run local distribution networks; and
 - retailers, who sell electricity to consumers.¹
- 1.6 Transpower and the electricity generators are considered the wholesale market. Electricity distribution businesses and retailers are the retail market (see Figure 1).

1 For more information on the electricity industry, see www.ea.govt.nz.

Figure 1
The structure of the electricity industry



Source: Electricity Authority (2016), *Electricity in New Zealand*, page 5.

- 1.7 The owners of electricity distribution businesses include community or consumer trusts and local authorities.
- 1.8 The electricity industry is set up so that Transpower and the electricity distribution businesses are natural monopolies. Therefore, they are subject to regulatory control. We cover some of the regulatory requirements in paragraphs 1.23 to 1.26.
- 1.9 Certain entities are set up to promote efficiency in the energy sector. They have an important role in promoting competition, ensuring reliable supply, encouraging greater use of renewable sources of energy, and energy conservation.
- 1.10 In this report, “the energy sector” includes:
- the electricity industry;
 - other suppliers of energy sources; and
 - entities set up to promote energy efficiency.
- 1.11 This report does not cover end-users, consumers of energy, or local generators.

The entities covered by this report

- 1.12 The Auditor-General does not audit every entity in the energy sector – some are not public entities and do not fall within the Auditor-General’s mandate. We comment on the audits of only the types of energy-sector entities within our mandate, which we set out below. Appendix 1 lists the individual energy sector entities that we audit.

Electricity distribution businesses

- 1.13 The electricity distribution businesses that we audit are subject to the Energy Companies Act 1992. Section 45(1) states that every company incorporated under this Act and its subsidiary is a public entity.
- 1.14 There are several electricity distribution businesses that we do not audit because they are not public entities.²

Gas distribution businesses

- 1.15 We audit one gas distribution business, GasNet Limited. It is owned by Wanganui Gas Limited, which is subject to the Energy Companies Act 1992. Wanganui Gas Limited sold the assets (including the trading name) of its retail business Energy Direct New Zealand in 2013.

State-owned enterprises

- 1.16 Two State-owned enterprises are heavily involved in the energy sector. Transpower is the owner of the national grid of electricity transmission lines. Solid Energy New Zealand Limited is the largest coal mining company in New Zealand.

Mixed-ownership model entities

- 1.17 These are publicly listed companies in which the Government has a majority ownership interest. The mixed-ownership model companies that generate and sell electricity are Genesis Energy Limited, Meridian Energy Limited, and Mighty River Power Limited.

Community or consumer trusts

- 1.18 Some electricity distribution businesses are owned by community or consumer trusts. These trusts were set up to own electricity distribution businesses on behalf of their communities or of consumers. The Electricity Industry Act 2010 provides for the Auditor-General to audit such a trust if the trustees do not appoint another auditor.³ We currently audit four community or consumer trusts – Electra Trust, Network Tasman Trust, ScanPower Limited Customer Trust, and West Coast Electric Power Trust.
- 1.19 Some trusts choose not to appoint another auditor because they believe that it is more efficient if the Auditor-General audits all entities in their group.

² For example, Vector Limited.

³ Section 103(1) of the Electricity Industry Act 2010.

Subsidiary entities

- 1.20 Public entities in the energy sector own many subsidiaries. Many of the subsidiaries operate in complementary industries to their owners. For example, many subsidiaries of electricity distribution businesses are construction or consulting companies. Some of the subsidiaries operate outside of the energy sector. We discuss this further in Part 3.
- 1.21 Many of the mixed-ownership model subsidiaries also operate in the electricity generation or retail sectors.

Crown agents and independent Crown entities

- 1.22 Two Crown entities are involved in the energy sector. The Electricity Authority promotes competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The Energy Efficiency and Conservation Authority encourages, promotes, and supports energy efficiency and the increased use of renewable energy sources.

The regulatory environment

- 1.23 Transpower and the electricity and gas distribution businesses are natural monopolies. Part 4 of the Commerce Act 1986 provides for the regulation of price and quality to promote competitive behaviour. The Commerce Commission is responsible for enforcing the Act, and has created a regulatory framework. This framework has two parts.
- 1.24 First, the Commerce Commission sets the maximum revenue that some electricity distribution businesses, gas distribution businesses, and Transpower can earn, and requires them to meet certain quality standards. Some community or consumer-owned electricity distribution businesses are exempt from this regulation.⁴ The Commerce Commission's current determinations for 2014/15 on price and quality are available at www.comcom.govt.nz:
- *Electricity Distribution Services Default Price-Quality Path Determination 2012*, covering electricity distribution businesses.⁵
 - *Gas Distribution Services Default Price-Quality Path Determination 2013*, covering gas distribution businesses.
 - *Commerce Act (Transpower Individual Price-Quality Path) Determination 2010*, covering Transpower.

4 Section 54G(2) of the Commerce Act 1986.

5 After the Canterbury earthquakes, Orion New Zealand Limited developed a customised price path in keeping with the *Electricity Distribution Services Input Methodologies Determination 2012*. The Commerce Commission then developed a separate determination for Orion New Zealand Limited, *Orion New Zealand Limited Customised Price-Quality Path Determination 2013*, which applied in 2014/15.

- 1.25 Secondly, the Commerce Commission requires electricity distribution businesses, gas distribution businesses, and Transpower to publish information about their performance. Financial performance, service performance, pricing and contract, and asset information of the part of the business subject to regulation is included. Unregulated parts of a company are not included in the information disclosed. The determinations operating in 2014/15 are all available at www.comcom.govt.nz:
- *Electricity Distribution Information Disclosure Determination 2012 (consolidated in 2015)*, covering electricity distribution businesses.
 - *Gas Distribution Information Disclosure Determination 2012 (consolidated in 2015)*, covering gas distribution businesses.
 - *Transpower Information Disclosure Determination 2014*, covering Transpower.
- 1.26 The Commerce Commission does not require all of the information prepared for these information disclosure determinations to be independently audited. In Part 2, we discuss the work we did in 2014/15 on the portion of the determinations that is subject to audit.

2

The audit reports we issued in 2015

- 2.1 Under the Public Audit Act 2001, the Auditor-General is required to report on the matters arising out of the work done on her behalf. In this Part, we provide information about the audit results for the public entities in the energy sector. We comment on:
- the audit of the annual financial statements and service performance information;
 - timeliness of reporting by public entities in the energy sector; and
 - the audit of regulatory information prepared for the Commerce Commission.
- 2.2 We also discuss two common issues that emerged in some of the audit reports issued to public entities in the energy sector.
- 2.3 This information was compiled as at 17 February 2016. Other audits might have been completed since, but they are not included here.

Our audits of annual financial statements and service performance information

- 2.4 In the energy sector, we issue audit reports covering financial statements. For some entities in the energy sector, we are also required to issue an audit report covering service performance information.⁶ The most common service performance information produced by entities in the energy sector is about network reliability (see paragraphs 2.31 to 2.33).
- 2.5 We issued 104 audit reports on the financial statements of public entities in the energy sector. Of these reports, 23 also covered service performance information. Of the 104 reports, 89 were standard audit reports. This means that 15 were non-standard. Appendix 2 contains summaries of the 15 non-standard audit reports.
- 2.6 Although this is a significant number of non-standard audit reports, 12 related to entities within the Solid Energy New Zealand Limited (Solid Energy) group.⁷ We discuss the reasons behind the opinions we issued in paragraphs 2.34 to 2.41.
- 2.7 Appendix 3 explains how we determine which type of audit report to issue.

⁶ We express an opinion on service performance information for electricity distribution businesses, Crown agents, and independent Crown entities.

⁷ As at 30 June 2015, the financial statements and audit opinion of Solid Energy New Zealand Limited included "(Subject to Deed of Company Arrangement)" in the company name and the names of its subsidiaries. For simplicity, we have not included that wording in this report.

Modified audit opinions

Disclaimers of opinion

- 2.8 In 2015, we expressed disclaimers of opinion regarding the service performance information of two public entities because we were unable to form an opinion on the reliability of the information.
- 2.9 We expressed disclaimers of opinion for Counties Power Limited and group (for 2014/15) and Network Waitaki Limited and group (for 2014/15) on the completeness and accuracy of their performance reporting on network reliability. These companies do not have a fully automated system for recording network fault information. This means that the companies might not become aware of network faults until they are told about them by customers. A fully automatic system provides automated notification of the duration of the fault and the number of customers affected.
- 2.10 Because they do not use fully automated systems, the two companies could not provide independent evidence of the completeness and accuracy of their fault information (such as the duration of a fault and the number of customers affected).
- 2.11 We issued unmodified opinions for the two companies on their financial statements and other performance measures that were not affected by these limitations.

Qualified audit opinions

- 2.12 In 2015, we expressed two qualified opinions on the financial information of entities. We express a qualified opinion when we disagree with the treatment or disclosure of an issue in the financial statements, or when we cannot get enough audit evidence to form an opinion about a matter.
- 2.13 We expressed a qualified opinion on the financial statements of Solid Energy and Spring Creek Mining Company (a subsidiary of Solid Energy) for 2014/15 on the valuation of mining operation assets. We could not obtain enough evidence to support the value of these assets recognised in the financial statements because we were unable to independently verify the assumptions used when valuing them.
- 2.14 We also drew attention to disclosures in both companies' financial statements indicating that they were not prepared on the basis that they were a going concern. After year-end, Solid Energy and its New Zealand-based subsidiaries were placed in voluntary administration and entered into a Deed of Company Arrangement with its creditors. Solid Energy group's assets will be offered for sale by March 2018 (see paragraphs 2.34 to 2.41).

Unmodified audit opinions

“Emphasis of matter” paragraphs

- 2.15 We issued 11 audit reports with unmodified audit opinions that included emphasis of matter paragraphs, drawing attention to particular areas.
- 2.16 Our opinions on 10 subsidiaries of Solid Energy drew attention to disclosures in the 2014/15 financial statements indicating they were not prepared on the basis that they were a going concern. The companies were:
- Biodiesel New Zealand Limited;
 - Coal Bed Methane Limited;
 - Coalcorp Services Limited;
 - Coal New Zealand Limited;
 - Coal New Zealand International Limited;
 - Pike River (2012) Limited;
 - Solid Energy Briquettes Limited;
 - Solid Energy Land Holdings Limited;
 - Stockton Alliance Limited; and
 - Terrace Coal Mine Limited.
- 2.17 As well as the above emphases, we also drew attention to disclosures in Coalcorp Services Limited’s financial statements about the cancellation of the company’s captive insurance licence. Coalcorp Services Limited provided insurance to Solid Energy and its subsidiaries.
- 2.18 We also drew attention to the disclosure in the 2014/15 financial statements of Wanganui Gas Limited that the company had not complied with the Energy Companies Act 1992. The company did not publish a statement of corporate intent for the year ended 30 June 2015. However, it did report performance information for that year.

Timeliness in annual reporting

- 2.19 Public entities in the energy sector are required under legislation to meet certain statutory deadlines for the adoption of audited financial statements (and sometimes for service performance information). The deadlines differ by type of entity:
- Crown entities and Crown agents – four months after year-end, under the Crown Entities Act 2004.
 - Electricity distribution businesses – three months after year-end, under the Energy Companies Act 1992.

- Gas distribution businesses – five months after year-end, under the Companies Act 1993.
- Mixed-ownership model companies – three months after year-end, under the NZX Main Board/Debt Market Listing Rules.
- State-owned enterprises – three months after year-end, under the State-Owned Enterprises Act 1986.
- Subsidiaries of the above – five months after year-end, under the Companies Act 1993.
- Community or consumer trusts – there is no statutory deadline for adoption, although the trust deed usually sets one (typically, four or five months after year-end).

2.20 Thirteen entities did not meet the deadlines for adopting audited financial statements. Twelve were subsidiaries of Mighty River Power Limited, which gave priority to group reporting in 2014/15. The other entity was a community trust owner of an electricity distribution company.

2.21 These entities need, where possible, to better manage the way they produce their annual financial statements to adopt their audited financial statements on time.

The audits of regulatory information

2.22 We issued 33 audit reports on regulatory information produced by public entities in the energy sector. Of the 33 reports, 26 were standard audit reports and 7 were non-standard. Figure 2 shows the split of audit reports by type of regulatory audit (see paragraphs 1.23-1.26).

Figure 2
Audit reports issued, by type of regulatory audit completed

	Number of audit reports issued	Number of non-standard audit reports issued
Default price-quality path compliance statement*	12	2
Regulatory information disclosure	21	5

* We have included in these results the audit report issued on Orion New Zealand Limited in accordance with *Orion New Zealand Limited Customised Price-Quality Path Determination 2013*.

2.23 Appendix 2 contains summaries of the non-standard audit reports that we issued.

2.24 All entities publicly disclosed their regulatory information within the applicable deadlines.

Modified audit opinions

Disclaimer of opinion

- 2.25 In 2014/15, we expressed a disclaimer of opinion on the 2011/12 comparative information of Aurora Energy Limited as it was reported in the default price-quality path compliance statement (this statement covers five years). No independent evidence was available to support the completeness and accuracy of data records held in the company's automated data system for registering network faults. Between January 2011 and August 2011, the system automatically deleted some records. The company was able to restore some of the deleted files, but not all.
- 2.26 We issued an unmodified opinion on the price path information and the other quality information that was not affected by the limitations of the data system.

Qualified audit opinions

- 2.27 In 2014/15, we expressed five qualified audit opinions on certain information disclosed by electricity distribution businesses. The qualifications related to the completeness and accuracy of network reliability information in the regulatory information disclosure. We issued qualified opinions for reasons related to the accuracy of fault recording systems that were not fully automated (see paragraphs 2.9 and 2.10). The entities affected were:
- Alpine Energy Limited;
 - Counties Power Limited;
 - Electricity Invercargill Limited;
 - Network Waitaki Limited; and
 - The Lines Company Limited.
- 2.28 Alpine Energy Limited, Electricity Invercargill Limited, and The Lines Company Limited did not receive a modified audit opinion on the service performance disclosures reported in their annual reports. This is because they did not specifically report network reliability information.

Unmodified audit opinions with “emphasis of matter” paragraphs

- 2.29 We drew attention to the disclosure in the default price-quality path compliance statement of The Lines Company Limited about the way quantities for prompt payment discounts are estimated. The company offers a 10% prompt-payment discount on most of its charges. The actual effect of the discount needs to be reflected in its price-path calculations. The company does not have enough information to determine, for each price, the actual billed quantities to which

the prompt payment discount has been applied. Instead, the company estimates these quantities, using an appropriate approach.

Common issues arising in the non-standard audit reports

- 2.30 Two common issues featured in the non-standard audit reports of public entities in the energy sector:
- The adequacy of systems and processes for recording complete and accurate information about the network's reliability.
 - The financial statements of Solid Energy and its subsidiaries not being prepared on a going-concern basis after the group was placed into voluntary administration.

Network reliability information

- 2.31 Five electricity distribution businesses received qualified opinions on their network reliability information. These entities do not have fully automated systems to track and record network faults and interruptions.
- 2.32 Network faults can occur for various reasons, including weather events, road accidents, and asset failure. An increasing trend in faults over time could be a sign the network assets are not well maintained. Electricity distribution businesses that rely on systems that are not fully automated might not have the best information on which to make maintenance and replacement decisions for their network assets. We encourage these companies to review their processes for collecting network reliability information and improve them as far as reasonably possible. Our view is consistent with other feedback to the sector.⁸
- 2.33 We do not always reflect the effect of the system weaknesses in our audit opinions. The content of our opinions is driven by the audit requirements in place. For some regulatory audit work, we do not need to assess the completeness and accuracy of network reliability information.⁹

Solid Energy

- 2.34 In July 2012, the international price of coal fell dramatically and has not recovered. As a result, Solid Energy's trading position deteriorated significantly. Figure 3 shows the past few years' financial performance of Solid Energy.

⁸ See, for example, Commerce Commission New Zealand (2014), *General comments and observations about EDBs information disclosures: Disclosure year 2013*, page 8.

⁹ The regulatory work is the audit of the default price-quality path compliance statement. See Commerce Commission New Zealand (2012), *Electricity Distribution Services Default Price-Quality Path Determination 2012*, pages 29 and 30.

Figure 3
Summarised financial information from 2011/12 to 2014/15 for the Solid Energy group

	2011/12 \$million	2012/13 \$million	2013/14 \$million	2014/15 \$million
Revenue	978.4	631.1	449.2	369.8
Cost of sales	(820.3)	(596.6)	(474.8)	(386.6)
Results from operating activities	(54.8)	(262.2)	(163.7)	(289.7)
Net profit/(loss)	(40.2)	(335.4)	(181.9)	(176.7)
Shareholders' equity	423.4	91.6	12.5	(94.6)
Total assets	1,166.9	859.2	636.1	550.0
Total liabilities	743.5	767.6	623.6	644.6

- 2.35 In response, we did additional work on aspects of Solid Energy's governance and management, which formed the basis of a briefing to the Commerce Committee in 2014.¹⁰ Among our findings, we found that the board was receiving adequate information and asking the right questions. However, the board and management did not have the right skills and experience that we would expect. For example, there was only one board member and one member of senior management with mining experience. Further, there were no board members with commodity experience. Solid Energy subsequently addressed these deficiencies.
- 2.36 Most of the post-tax losses of Solid Energy were due to losses in the value of its property, plant, and equipment, and mining assets. The loss in value of these assets was \$582.5 million from 2012/13 to 2014/15.¹¹ Accounting standards refer to these losses in value of assets as "impairments". An impairment is recognised when the amount of money an asset can make from using it (or disposing of it) is less than what it is recorded at. In Solid Energy's case, the amount of money was based on an estimate of the future cash flows. These cash flows were significantly affected by the downturn in the coal price.
- 2.37 Solid Energy's financial position was also adversely affected by the debt it was carrying. From 2008/09 to 2012/13, Solid Energy spent \$621.4 million on capital purchases. In the same period, borrowing increased by \$353 million. The level of debt carried by Solid Energy restricted its ability to respond to the collapse in coal prices.

10 Office of the Auditor-General (2014), *Additional Work on Solid Energy New Zealand Limited*, Wellington.

11 The Solid Energy group recognised impairment write-downs of \$256.6 million in 2014/15, \$110.6 million in 2013/14, and \$215.3 million in 2012/13.

- 2.38 Although Solid Energy managed the effect of the adverse trading conditions in 2013 and 2014, it could not sustain this into 2015. The company considered two options: immediate liquidation or a managed sale of its assets to maximise the proceeds to creditors. After discussions with its banks and receiving financial and legal advice, the Board of Directors placed the Solid Energy group in voluntary administration on 13 August 2015. On 17 September 2015, Solid Energy's creditors adopted the Board's proposal for a Deed of Company Arrangement and a Restructured Debt Deed was entered into.
- 2.39 Under the Deed of Company Arrangement, Solid Energy's land, mines, and certain assets will be offered for sale by March 2018. Proceeds from the sales will be used to pay the participating creditors under the Restructured Debt Deed. The Restructured Debt Deed set common terms and conditions for the participating creditors. Trade creditors are not subject to the Restructured Debt Deed and will be repaid in priority from available facilities and operating cash flows.
- 2.40 Because Solid Energy and its subsidiaries were put in voluntary administration, they could no longer apply the going-concern assumption. This affects an entity's financial statements because it changes how assets and liabilities are measured. For example, Solid Energy needed to measure its assets at a value no greater than it could sell them for. Normally, an asset is measured at cost or the value of the future cash flows that it will produce during its useful life.
- 2.41 Auditing standards require us to draw readers' attention in our audit report to the fact that the financial statements did not apply the going-concern assumption. As long as Solid Energy and its subsidiaries prepare financial statements that do not apply the going-concern assumption, we will continue to emphasise this matter in our audit reports.

3

Our audits of electricity distribution businesses

- 3.1 There are 29 electricity distribution businesses in New Zealand. As at 31 March 2015, 20 of them were public entities and within the Auditor-General's mandate. They vary greatly in size. Orion New Zealand Limited is the largest, with around 191,000 customers,¹² and Buller Electricity Limited is the smallest, with about 4500 customer connections.¹³
- 3.2 In this Part, we comment on matters arising from our 2014/15 audits of electricity distribution businesses. We focus on the trends found in our audits of these companies, covering:
- the regulatory environment;
 - the governance of electricity distribution businesses;
 - investment by electricity distribution businesses; and
 - emerging technologies.

The regulatory environment

- 3.3 Electricity distribution businesses are natural monopolies, regulated by the Commerce Commission and, to a lesser extent, the Electricity Authority.
- 3.4 The electricity distribution businesses must comply with the reporting and information requirements of the Commerce Commission. The regulation of electricity distribution businesses' pricing is in the public interest. However, the regulations are complex and some are difficult for electricity distribution businesses to comply with. Many companies expressed concern in their annual reports about the substantial, complex, multiple disclosure requirements. One company remarked:
- In recent years regulation ... has become more and more complex. Keeping abreast of these regulations requires significant resources and the costs of compliance continue to increase. ... disclosures are intended to enable 'an interested person' to gain understanding of the company's operations. However, the detail required to meet disclosure requirements is exceedingly complex, and in some cases not easy to interpret.*
- 3.5 The Electricity Authority is responsible for the efficient operation of the entire electricity market under the Electricity Industry Act 2010. The Authority monitors the operation and effectiveness of the market.
- 3.6 Ensuring reliable, secure, and safe electricity supplies is foremost in electricity distribution businesses' and regulators' minds. Relevant, up-to-date information on technical, financial and service performance information is essential for electricity distribution businesses, and regulators, to plan for and deliver on

12 Orion New Zealand Limited, *Annual Report 2015*, page 1.

13 Buller Electricity, *Asset Management Plan 1st April 2015-31st March 2025*, page 123.

these objectives. It is not for us to comment on the merits of the regulations or structures of the electricity market. However, we note it is important that electricity distribution businesses have the capability and capacity to understand and respond to regulatory requirements. Otherwise, the potential regulatory benefits to consumers might not be realised.

3.7 A number of electricity distribution businesses' 2014/15 annual reports commented on the way the nature of the sector and the regulatory environment influenced their approach to doing business. One company said that compliance with regulatory quality targets, "... significantly influences the extent of planned outages on the network"; and that, together with more stringent health and safety requirements that limit their work on live lines, this could mean that its quality targets are ultimately not sustainable. Another company remarked that, if it had not diversified and grown, it "... would have remained a small provincial electricity lines company with few, if any, options for profitable growth".

3.8 We comment on some of the approaches that electricity distribution businesses are taking to expand their investments in paragraphs 3.18 to 3.34.

Governance of electricity distribution businesses

3.9 The make-up of and skills on governing bodies are always important considerations. Electricity distribution businesses are commercial entities and, in our experience, can attract directors with appropriate experience and skills. With the relative stability of electricity line companies' boards, they have the experience and skills to manage the core electricity distribution business.

3.10 Given the increasing diversity of company operations, the complexity of the regulatory settings, and the often large investments at stake, we encourage electricity distribution businesses to continue to be vigilant in maintaining their standards of governance.

3.11 For electricity distribution businesses making an investment, particularly outside of their core operations, the governing bodies must be careful to apply appropriate judgements based on good business cases. Also, as investments diversify away from the core business, governing bodies might need to reassess whether they maintain the appropriate mix of skills.

Investments by electricity distribution businesses

3.12 We have noted an increasing trend for electricity distribution businesses to diversify into other kinds of business, including investments seeking new revenue streams and geographical reach beyond their network location.

- 3.13 In doing so, electricity distribution businesses have sought to increase their unregulated revenue sources. One reason for companies to increase “non-core” operations is to seek increased profitability.

Investments in core network

- 3.14 Electricity distribution businesses continued to invest in their networks, upgrading and replacing assets and bearing the cost of unplanned repairs. Unplanned spending or large spikes in spending can affect the companies’ operating positions and strategies.
- 3.15 Orion New Zealand Limited operates in greater Christchurch and central Canterbury. It has been making large investments in concurrently upgrading and restoring its network after the 2010 and 2011 earthquakes, installing new 66kV underground lines across the north of Christchurch, and building a new substation in Waimakariri. In 2014/15, the company reported that it had invested more than \$80 million in each of the last two years on its network, \$30 million each year above normal annual levels.
- 3.16 Waipa Networks Limited has committed to funding several big new capital projects, including \$25 million for the construction of a second 110kV line to Te Awamutu.
- 3.17 Some electricity distribution businesses also faced repair costs after extreme weather events. Northpower Limited noted unplanned repair expenses of \$1.1 million resulting from storms. Other natural hazards, such as earthquakes or flooding, and incidents such as fire and accidents, resulted in unplanned expenses. Alpine Energy Limited noted its purchase of back-up diesel generation capacity.

Network expansion and diversification

- 3.18 Some electricity distribution businesses have invested beyond the local networks, acquiring other companies’ networks or transmission assets disposed of by Transpower.
- 3.19 In one of the larger transactions, Marlborough Lines Limited sold its 51% interest in the OtagoNet Joint Venture (OtagoNet) to The Power Company Limited and Electricity Invercargill Limited in September 2014.
- 3.20 We noted that electricity distribution businesses also acquired assets previously operated by Transpower. Transpower currently has a policy of divesting certain assets, particularly lower-voltage and spur lines, to lines companies.

- 3.21 Eastland Network Limited acquired Transpower assets worth \$12.5 million that supplied Gisborne and Tokomaru Bay, Wairoa, and Tuai. As a result of the transfer of these Transpower assets, the large area supplied by Eastland Network Limited will be connected to the national grid only at Transpower's exit point at Tuai. Network Tasman Limited also acquired Transpower assets in 2014/15. Northpower Limited acquired Transpower assets in April 2015.

Construction/contracting companies

- 3.22 About a quarter of electricity distribution businesses have subsidiaries to carry out the network maintenance, construction, and development operations. A number of these construction/contracting companies also subcontract to Transpower and do contract jobs for other networks. Competition can be fierce. Retaining staff, particularly engineers and technicians, can be difficult for smaller or more remote companies. There can be a high demand for operational and planning expertise in the main centres and, to a lesser extent, further afield.

Generation

- 3.23 Since the energy sector was restructured in 2010, regulations have restricted electricity distribution businesses to electricity generation activities up to a maximum capacity. A number of companies have interests in generation. Westpower Limited commissioned hydro generation on the West Coast on the South Island in June 2013, through its subsidiary Amethyst Hydro Limited. Westpower Limited is also investigating a second hydro scheme. Westpower Limited reasoned that its hydro dam investment was desirable for continuity of supply.

Telecommunications fibre networks

- 3.24 A few electricity distribution businesses are involved directly or indirectly in installing and operating telecommunications fibre. Network Tasman Limited has been laying fibre for several years. Northpower Limited has built an ultrafast broadband network in the upper North Island, through its associate Whangarei Local Fibre Company Limited. Unison Networks Limited (Unison) is involved in fibre through its subsidiary, Unison Fibre Limited. Others, such as Westpower Limited, are less directly involved – it has part of the contract to roll out fibre on the West Coast, on behalf of Chorus Limited.
- 3.25 Electricity distribution businesses have noted that developing fibre networks share similar techniques and processes with lines networks, and often follow the same infrastructure corridors or adjacent trenches, allowing opportunities for co-operation.

Offshore business

- 3.26 Some electricity distribution businesses undertook offshore business. Alpine Energy Limited's core lines business is situated in South Canterbury, up to the edge of the Southern Alps and Aoraki/Mount Cook. Alpine Energy Limited subcontracted to the Ministry of Foreign Affairs and Trade through one of its subsidiaries (Infratec Renewables Limited) and installed an off-grid solar array in Rarotonga. Infratec was also involved in a similar scheme in Afghanistan (the Bamyan Renewable Energy Project) again subcontracting to the Ministry.
- 3.27 Unison also completed business in Fiji and Australia through its subsidiary, ETEL Limited. Unison operates in Hawke's Bay and central North Island districts. ETEL Limited worked with the Fiji Electricity Authority on the installation of back-up diesel generators, and provided transformers for a wind farm at Boco Rock in New South Wales, Australia.
- 3.28 Electricity distribution businesses have also engaged in construction and maintenance subcontracting overseas (for example, in Australia and the Pacific islands). Northpower Limited and Unison (together with Top Energy Limited) sent crews to Fiji in support of the Ministry of Foreign Affairs and Trade's efforts to help restore Fiji's distribution network after Tropical Cyclone Winston in March 2016.

Other ventures

- 3.29 We also found instances of electricity distribution businesses that were involved in commercial ventures with no direct links to their core business.
- 3.30 Scanpower Limited noted that in 2014/15 its revenue from sources other than the network exceeded its revenue from the network (by 55%) for the first time. Scanpower Limited operates in the Tararua and southern Hawke's Bay regions, and has extensive investments in distribution-related activities and non-core interests. Non-core interests include commercial property leases, such as cold-store facilities. Scanpower Limited also has a 33% joint-venture holding in the Kiwi Sock Company Limited.
- 3.31 Marlborough Lines Limited disposed of its 51% share in OtagoNet. Marlborough Lines Limited recognised a \$71.5 million gain on the sale, before tax. Since that sale, and after its 31 March 2015 balance date, Marlborough Lines Limited purchased an 80% share of Yealand's winery, which is in the Marlborough region.
- 3.32 Other electricity distribution businesses have a variety of interests, including farming and security guard services.

- 3.33 Any investment can create risk for an entity. However, investments outside of an entity's core business are inherently riskier, because the board and management might not have the relevant skills and experience to enter into and manage the new investments.
- 3.34 Given that electricity distribution businesses are investing more in non-core operations, we encourage them to pay particular attention to the oversight of investment decisions and to risk management. This will include actively ensuring that:
- corporate governance and management arrangements are appropriate and robust, taking into account their increasing diversity of investments, the management of conflicts of interest, and the geographical distance of some such investments and activities from parent companies;
 - specific decisions about investments and activities, especially non-core investments or remote activities, include consideration by directors and managers with appropriate experience and expertise;
 - project management of capital expenditure be maintained and enhanced; and
 - appropriate consideration be given to the time it can take to implement projects and initiatives, and then to see returns on them.

Emerging technologies

- 3.35 In their annual reports, electricity distribution businesses noted their interest in emerging technologies, such as consumer solar generation and network technologies (such as smart meters). Several are investing in research and development and in pilot schemes. Centralines Limited and Unison are contributing to research and development on solar generation and storage in rural environments. Northpower Limited is one of a small number of companies that have invested in establishing an electric vehicle fast-charge station, and is also promoting the use of electric vehicles in the community.
- 3.36 Companies also remarked on their concern about the effects of disruptive technologies, particularly consumer solar generation, on their activities and especially on their revenue and operating costs. In particular, they noted that the costs of maintaining connections to on-site solar generation users are greater than those for regular connections, because the overall network electricity usage of on-site consumers was lower.
- 3.37 Network Waitaki Limited is investing in upgrading its asset management and geographic information system software, which includes a provision for better communication with staff in the field.

- 3.38 Unison is investing heavily in advanced technologies. It reported that it is the first company in the world to install a Silver Springs Networks Generation Four Distributed Automation mesh radio network for communicating with its smart meters and integrating them with other systems.
- 3.39 We plan to look at electricity distribution businesses' asset management practices to understand how they are driving the businesses' operations and distribution capacity. The case studies we produce will consider how these entities intend to accommodate emerging technologies as part of their asset management.

Our audits of other energy-sector entities

- 4.1 In this Part, we comment on matters arising from our 2014/15 audits of Transpower, the Electricity Authority, the Energy Efficiency and Conservation Authority, and the mixed-ownership model companies:
- Genesis Energy Limited (Genesis Energy);
 - Meridian Energy Limited (Meridian Energy); and
 - Mighty River Power Limited (Mighty River Power).
- 4.2 We have not covered Solid Energy in this Part. Our main findings on Solid Energy are set out in Part 2.
- 4.3 Transpower and the mixed-ownership model companies are large businesses. In 2014/15, they recognised total revenue ranging from \$1.0 billion to \$2.9 billion, and made after-tax profits ranging from \$47 million¹⁴ to \$247 million. They own assets worth \$23.0 billion, including \$14.8 billion in electricity generation assets and \$4.4 billion in transmission assets.
- 4.4 An important aim of the boards and management of Transpower and the mixed-ownership model companies is to distribute earnings to their shareholders. In 2014/15, the companies distributed dividends of \$988 million, an increase of \$267 million on the previous year. The increase was partly due to Meridian Energy and Mighty River Power paying special dividends in the year.
- 4.5 A key focus of our annual audits is to assess the overall control environment of an entity. Also, given their significance, we considered the value of property, plant, and equipment. Further, we noted a significant improvement in the overall readability of the financial statements adopted by these entities. We discuss each of these matters below.

The control environment

- 4.6 In annual audits of Crown entities, mixed-ownership model companies, and State-owned enterprises, we consider and comment publicly on the management control environment and the financial information systems and controls that support the managing and reporting of financial information. We assess strengths and deficiencies, and we recommend specific improvements to fix any deficiencies that we find.
- 4.7 The entities' annual reports include information on corporate social responsibility and sustainability matters, some of which is reported against international frameworks. We do not audit this extra information. However, we do consider whether the information set out in the annual reports is consistent with the financial statements that we audit.

¹⁴ Mighty River Power's 2014/15 profit was reduced by \$130 million after providing for impairments of non-current assets.

Management control environment

- 4.8 Comments about an entity's controls are based on our observations of many elements, including:
- clarity of strategic planning;
 - organisational structure;
 - how ethical values are communicated and applied;
 - commitment to competence;
 - involvement of those in governance roles;
 - management philosophy and operating style;
 - assignment of authority and responsibility;
 - human resources policy and practices;
 - risk assessment and management;
 - policies and procedures that provide controls over business processes and monitoring, including self-review and internal audit practices; and
 - arrangements to ensure that the public entity complies with legislation.

- 4.9 In 2014/15, we assigned grades of “very good” to all six entities – Transpower, the Electricity Authority, the Energy Efficiency and Conservation Authority, and the mixed-ownership model companies. A “very good” grade means that we have no recommendations for improvement. The grades were unchanged from those in 2013/14.

Financial information systems and controls

- 4.10 We base our comments and grades for financial information systems and controls on our observations of:
- the appropriateness and presentation of financial information;
 - the reliability of financial information systems; and
 - controlling and monitoring activity.

- 4.11 Again, we assigned “very good” grades to the six entities in 2014/15, as we had done in 2013/14.

Valuation of property, plant, and equipment

Generation assets

- 4.12 Generation assets are the largest component of property, plant, and equipment and form the largest asset on the mixed-ownership model companies' balance sheets, at 86% of total assets. Accounting standards¹⁵ allow an entity to recognise

¹⁵ External Reporting Board (2014), *New Zealand Equivalent to International Accounting Standard 16: Property, Plant and Equipment* (NZ IAS 16), Wellington.

an item of property, plant, and equipment at either cost or fair value. The mixed-ownership model companies recognise their generation assets at fair value, which is determined by the cash flows the assets are expected to generate.

- 4.13 We were satisfied that the fair value of the generation assets recognised by the mixed-ownership model companies as at 30 June 2015 was appropriate.
- 4.14 The future cash flows that generation assets are expected to achieve need ongoing careful consideration by the mixed-ownership model companies. In particular, they need to consider the underlying conditions of the electricity market.
- 4.15 Although electricity use increased in 2014/15, previous investment in generation and by Transpower in the national grid was enough to meet the increased demand. However, there is uncertainty about future demand, particularly given the potential closure of the aluminium smelter at Tiwai Point. Also, changes in large electricity user consumption and the increasing use by consumers of emerging technologies can affect the electricity market.
- 4.16 For example, Meridian Energy worked with New Zealand Aluminium Smelters Limited and signed a variation to its electricity agreement with the company in August 2015. The smelter uses 12% of New Zealand's electricity production. The smelter has the right to terminate the contract, with a year's notice, from 1 January 2017 until 2030. If the smelter stopped operating, it could affect electricity generation requirements significantly.
- 4.17 Renewable electricity generation continues to be a cheaper option, which has resulted in some companies reducing other forms of generation. Hydro and wind generation in a given year is weather dependant. Therefore, concern has been expressed by some entities in the sector about security of supply in dry years, given the reduction in conventional generation.

Transmission assets

- 4.18 Transpower takes a different approach and recognises its transmission assets at cost, which is the amount that Transpower spent to purchase and install the asset.
- 4.19 We have previously examined how well Transpower is managing risks to the transmission network.¹⁶ We found that Transpower was proactive in its efforts to improve grid asset and risk management. The company has set up a number of initiatives in risk areas, which are at various stages of progress. Transpower is using initiatives to prioritise future investment proposals.

16 Office of the Auditor-General (2011), *Transpower New Zealand Limited: Managing risks to transmission assets*, Wellington. We followed up on how Transpower responded to the recommendations in our 2011 report in our 2014 report, *State-owned enterprises: Results of the 2013/13 audits*.

- 4.20 Transpower has also come to the end of a significant period of investment in the transmission network. This is readily apparent with a 28% reduction in capital expenditure to \$359 million in 2014/15. In the past five financial years, Transpower has spent around \$1.8 billion on its major projects.
- 4.21 Transpower will need to continue to work with other stakeholders to ensure that future growth in transmission assets will meet future demand needs.

Readability of financial statements

- 4.22 In 2014/15, Transpower and the mixed-ownership model companies took advantage of a change in the Companies Act 1993 to present only consolidated financial statements.¹⁷
- 4.23 The mixed-ownership model companies took extra steps to improve the readability of their financial statements:
- The companies reviewed and reduced the information disclosed in financial statements, confining disclosures to matters considered material to a shareholder's understanding. By taking this approach, Mighty River Power more than halved the length of its financial statements to 24 pages.
 - In its annual report, Genesis Energy applied the principles of the integrated reporting framework.¹⁸ The company noted that the result shows how Genesis Energy makes a sustainable financial return for its shareholders, while managing and protecting the resources used to create value.¹⁹ Genesis Energy significantly improved its disclosures about the people it employs and the natural resources it uses.
 - Meridian Energy restructured its financial statements into six sections, each with an explanatory introduction. The company also highlighted the more important disclosures, such as key judgements and estimates, in the financial statements.
 - Genesis Energy, Meridian Energy, and Mighty River Power presented all information related to a transaction or account balance with the note disclosing the transaction or account balance. Previously, this information was reported in several places in the financial statements.
- 4.24 We commend these steps to improve the readability of the financial statements. We encourage other entities in the energy sector to follow the lead taken by Genesis Energy, Meridian Energy, and Mighty River Power in reviewing the structure and content of their financial statements.

¹⁷ Group-only financial statements are allowed under section 202(1) of the Companies Act 1993.

¹⁸ Integrated reporting is a framework applied by entities to communicate a clear, concise, and integrated story that explains how all of their resources are creating value (see www.integratedreporting.org).

¹⁹ Genesis Energy Limited (2015), *Annual Report 2015*, page 9.

Appendix 1

Entities that we audit

The tables below lists the public entities in the energy sector for which we issued audit opinions during 2015.

The tables summarise entities by their type, and groups them by parent and controlled entity.

Electricity distribution businesses	
Parent entity	Subsidiary or related entity
Alpine Energy Limited	Infratec Limited*
	Infratec Renewables (Rarotonga) Limited
	On Metering Limited**
	SmartCo Limited***
Aurora Energy Limited	
Buller Electricity Limited	Electro Services Limited
	Pulse Energy Limited
Centralines Limited	
Counties Power Limited	Awhitu Land Holdings Limited
	Counties Power Lines Limited
	New Zealand Relay Limited
Eastland Network Limited	
Electra Limited	Defrost Limited
	Electra Energy Limited
	Electra Finance Limited
	Electra Generation Limited
	Electra Monitoring Limited
	Electra Trust
	Horowhenua Wind Energy Limited
	Sky Communications Limited
Electricity Invercargill Limited	Pylon Limited
Marlborough Lines Limited	Southern Lines Limited
	Valhalla Properties Limited
	Verne 35 Limited
Nelson Electricity Limited****	
Northpower Limited	
Network Tasman Limited	Network Tasman Trust
	Tasman Energy Limited
	Tasman Fibre Network Limited
	Tasman Generation Limited
	Tasman Investments Limited

Appendix 1
Entities that we audit

Electricity distribution businesses	
Parent entity	Subsidiary or related entity
Network Waitaki Limited	
Orion New Zealand Limited	Connetics Limited Orion NZ Ventures Limited
Scanpower Limited	ScanPower Limited Customer Trust
The Lines Company Limited	Clearwater Hydro Limited Financial Corporation Limited John Deere Electrical Limited**** Matawai Hydro Limited Speedys Road Hydro Limited
Top Energy Limited	Grazing North Limited Ngawha Generation Limited Phone Plus 2000 Limited
Unison Networks Limited	ETEL Limited Unison Contracting Services Limited Unison Energy Limited Unison Fibre Limited Unison Insurance Limited
Waipa Networks Limited	
Westpower Limited	Amethyst Hydro Limited ElectroNet Services Limited ElectroNet Transmission Limited Mitton Electronet Limited West Coast Electric Power Trust

* Infratec Renewables Limited's name changed to Infratec Limited on 14 January 2016.

** On Metering Limited is 50% owned by Alpine Energy Limited and Network Tasman Limited.

*** SmartCo Limited is owned by a number of entities including these public entities: Alpine Energy Limited, Counties Power Limited, Electricity Invercargill Limited, On Metering Limited, Network Tasman Limited and Network Waitaki Limited. Network Waitaki Limited ceased being a shareholder on 22 June 2015.

**** Although being an electricity distribution business, Nelson Electricity Limited is 50% owned by Marlborough Lines Limited and Network Tasman Limited.

***** On 29 February 2016, John Deere Electricity Limited was amalgamated into The Lines Company Limited.

Gas distribution businesses	
Parent entity	Subsidiary or related entity
GasNet Limited	Wanganui Gas Limited Wanganui Gas No 1 Limited Wanganui Gas No 2 Limited Wanganui Gas No 3 Limited

Mixed-ownership model entities	
Parent entity	Subsidiary or related entity
Genesis Energy Limited	GP No.2 Limited
	GP No.5 Limited
	Kupe Holdings Limited
Meridian Energy Limited	Damwatch Engineering Limited
	Damwatch Projects Limited
	Hunter Downs Development Company Limited
	Meridian Energy Captive Insurance Limited
	Meridian Energy International Limited
	Meridian Limited
	Meridian LTI Trustee Limited
	Powershop New Zealand Limited
	Three River Holdings No. 1 Limited
	Three River Holdings No. 2 Limited
Mighty River Power Limited	BOSCO Connect Limited
	ECNZ International Limited
	Glo-Bug Limited
	Kawerau Geothermal Limited
	Mercury Energy Limited
	Metrix Limited
	Mighty Geothermal Power International Limited
	Mighty Geothermal Power Limited
	Mighty River Power ESPP Limited
	Mighty River Power Geothermal Limited
	Mighty River Power LTI Limited
	Nga Awa Purua Joint Venture (Unincorporated)
	Ngatamariki Geothermal Limited
	Ngatamariki MRP Limited
	Rotokawa Generation Limited
	Rotokawa Geothermal Limited
	Rotokawa Joint Venture Limited
	Rotokawa Joint Venture (Unincorporated)
	Rotokawa MRP Limited
	Special General Partner Limited

Appendix 1
Entities that we audit

State-owned enterprises	
Parent entity	Subsidiary or related entity
Solid Energy New Zealand Limited <i>Solid Energy and its subsidiaries are all subject to a Deed of Company Arrangement.</i>	Biodiesel New Zealand Limited
	Coal Bed Methane Limited
	Coal New Zealand International Limited
	Coal New Zealand Limited
	Coalcorp Services Limited
	Pike River (2012) Limited
	Solid Energy Briquettes Limited
	Solid Energy Land Holdings Limited
	Spring Creek Mining Company
	Stockton Alliance Limited
	Terrace Coal Mine Limited
Transpower New Zealand Limited	Halfway Bush Finance Limited
	TB and T Limited

Crown agents and independent Crown entities	
Parent entity	Subsidiary or related entity
Electricity Authority	
Energy Efficiency and Conservation Authority	

Appendix 2

Non-standard audit reports issued in 2015

For a plain English explanation of the different forms of audit reports, please read our blog post, *The Kiwi guide to audit reports*, available at blog.oag.govt.nz.

Audit of annual financial statements

Modified audit opinions – disclaimers of opinion

Energy company	Summarised extract from the audit report
Counties Power Limited Network Waitaki Limited	<p>We were unable to form an opinion on two performance measures that are used to measure the network reliability performance – the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) – in the statement of service performance. We could not confirm the completeness and accuracy of all the SAIDI and SAIFI outages because of:</p> <ul style="list-style-type: none"> no independent evidence recording electricity connection faults; and limited control over the completeness and accuracy of interconnection point data representing individual customer connections to the network. <p>Also, we could not provide assurance on the comparative information presented in the 31 March 2015 statement of service performance because we needed to issue a disclaimer of opinion on the company and group's previous year's statement of service performance (because of the same limitations).</p> <p>We issued an unmodified opinion on the financial statements and the other performance measures in the statement of service performance for the year ended 31 March 2015.</p>

Modified audit opinions – qualified opinions

Energy company	Summarised extract from the audit report
Solid Energy New Zealand Limited	<p>Our audit was limited because we were unable to obtain sufficient evidence to confirm the fair value of the mining operation assets used to support the impairment of \$256.6 million recognised in the financial statements.</p> <p>We also drew attention to the disclosures in the financial statements which:</p> <ul style="list-style-type: none"> stated that the financial statements have been prepared on a non-going-concern basis. After year-end, the group (other than Nature's Flame Italia SRL (in Liquidation)) entered into a Deed of Company Arrangement with its creditors, which will result in the group's assets being offered for sale over the next two and a half years to March 2018; and gave additional information about the companies being placed in voluntary administration, the appointment of Administrators, and the execution of the Deed of Company Arrangement and a Restructured Debt Deed, which occurred after the group's balance date.

Energy company	Summarised extract from the audit report
Spring Creek Mining Company	<p>Our audit was limited because we were unable to obtain sufficient evidence to confirm the fair value of the mining operation assets used to support the impairment of \$5.5 million recognised in the financial statements.</p> <p>We also drew attention to the disclosures in the financial statements which:</p> <ul style="list-style-type: none"> stated that the financial statements have been prepared on a non-going-concern basis. After year-end, Solid Energy New Zealand Limited group (subject to a Deed of Company Arrangement) entered into a Deed of Company Arrangement with its creditors, which will result in the group's assets being offered for sale over the next two and a half years to March 2018; and gave additional information about the Solid Energy New Zealand Limited group being placed in voluntary administration, the appointment of Administrators, and the execution of the Deed of Company Arrangement and a Restructured Debt Deed, which occurred after the group's balance date.

Unmodified audit opinions with “emphasis of matter” paragraphs

Energy company	Summarised extract from the audit report
Biodiesel New Zealand Limited Coal Bed Methane Limited Coal New Zealand International Limited Coal New Zealand Limited Pike River (2012) Limited Solid Energy Briquettes Limited Solid Energy Land Holdings Limited Stockton Alliance Limited Terrace Coal Mine Limited	<p>We drew attention to the disclosures in the financial statements which:</p> <ul style="list-style-type: none"> stated that the financial statements have been prepared on a non-going-concern basis. After year-end, Solid Energy New Zealand Limited group (subject to a Deed of Company Arrangement) entered into a Deed of Company Arrangement with its creditors, which will result in the group's assets being offered for sale over the next two and a half years to March 2018.; and gave additional information about the Solid Energy New Zealand Limited group being placed in voluntary administration, the appointment of Administrators, and the execution of the Deed of Company Arrangement and a Restructured Debt Deed, which occurred after the group's balance date.
Coalcorp Services Limited	<p>We drew attention to the disclosures in the financial statements which:</p> <ul style="list-style-type: none"> stated that the financial statements have been prepared on a non-going-concern basis. After year-end, Solid Energy New Zealand Limited group (subject to a Deed of Company Arrangement) entered into a Deed of Company Arrangement with its creditors, which will result in the group's assets being offered for sale over the next two and a half years to March 2018; and gave additional information about the cancellation of the Company's captive insurance licence, the Solid Energy New Zealand Limited group being placed in voluntary administration, the appointment of Administrators, and the execution of the Deed of Company Arrangement and a Restructured Debt Deed, which occurred after the group's balance date.

Energy company	Summarised extract from the audit report
Wanganui Gas Limited	<p>We drew attention to the disclosures in the financial statements that the company had not prepared a statement of corporate intent for the year ended 30 June 2015, as required by the Energy Companies Act 1992.</p> <p>We also drew attention to disclosures about the company reporting its performance information according to measures that would have been agreed and approved by the Board of Directors in the statement of corporate intent for the year ended 30 June 2015 if a statement of corporate intent had been prepared under the Energy Companies Act 1992.</p>

Audit of regulatory information

Modified audit opinions – disclaimer of opinion

Energy company and type of report	Summarised extract from the audit report
Aurora Energy Limited: Default price-quality path compliance statement	<p>We were unable to form an opinion on the 2012 comparative SAIDI and SAIFI statistics because of the limited control over the completeness and accuracy of SCADA data records for service interruptions.</p> <p>We issued an unmodified opinion on the price-quality path information and 2011, 2013, 2014, and 2015 reliability assessment information.</p>

Modified audit opinions – qualified opinions

Energy company and type of report	Summarised extract from the audit report
Alpine Energy Limited: Regulatory information disclosure	<p>There are inherent limitations on the ability of the Company to collect and record the network reliability information required to be disclosed. Therefore, there is no independent evidence available to support the completeness and accuracy of recorded faults. Control over the completeness and accuracy of interconnection point (ICP) data included in the SAIDI and SAIFI calculations is limited throughout the year.</p>
Counties Power Limited: Regulatory information disclosure	
Electricity Invercargill Limited: Regulatory information disclosure	
The Lines Company Limited: Regulatory information disclosure	
Network Waitaki Limited: Regulatory information disclosure	

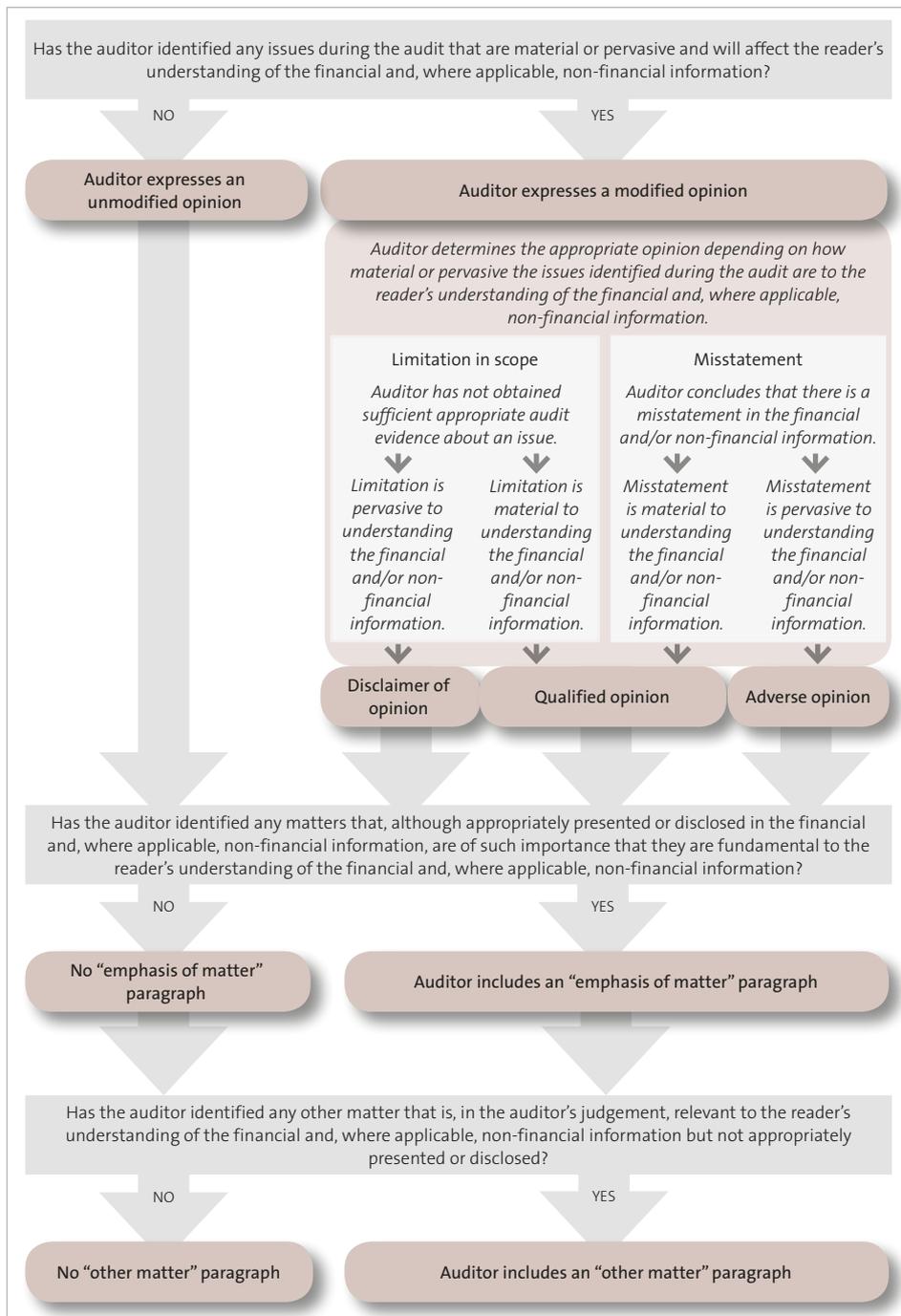
Unmodified audit opinion with “emphasis of matter” paragraph

Energy company and type of report	Summarised extract from the audit report
The Lines Company Limited: Default price-quality path compliance statement	<p>We drew attention to the disclosures in the compliance statement that described the uncertainty due to the system limitations regarding the estimation of the quantities for which the prompt payment discounts apply.</p>

Appendix 3

Deciding on the type of audit report

This diagram outlines the decisions that an appointed auditor has to make when considering the appropriate type of audit report to issue.



Note: This flowchart is based on the requirements of the New Zealand equivalents to the International Standards on Auditing: No. 700: *Forming an Opinion and Reporting on Financial Statements*, No. 705: *Modifications to the Opinion in the Independent Auditor's Report*, and No. 706: *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Collecting and using information about suicide
- Crown Fibre Holdings Limited: Managing the first phase of rolling out ultra-fast broadband
- District health boards' response to asset management requirements since 2009
- Education for Māori: Using information to improve Māori educational success
- Immigration New Zealand: Supporting new migrants to settle and work – Progress in responding to the Auditor-General's recommendations
- Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch – follow-up audit
- Response to query about Housing New Zealand's procurement processes
- Reflections from our audits: *Governance and accountability*
- Draft annual plan 2016/17
- Local government: Results of the 2014/15 audits
- Department of Conservation: Prioritising and partnering to manage biodiversity – Progress in responding to the Auditor-General's recommendations
- Public sector accountability through raising concerns
- A review of public sector financial assets and how they are managed and governed
- Improving financial reporting in the public sector
- Principles for effectively co-governing natural resources

Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – www.oag.govt.nz.

Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz