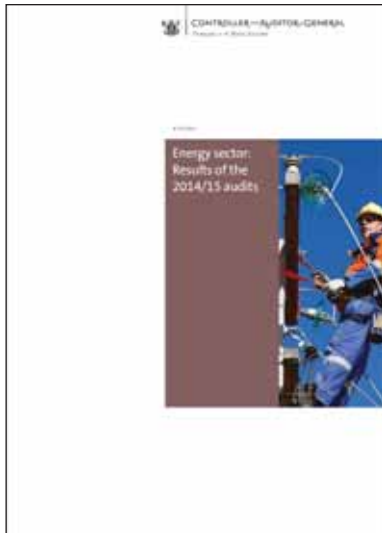




Summary of our report

Energy sector: Results of the 2014/15 audits



This is the first report we have produced 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 supplying 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.

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

Electricity distribution businesses often tell us 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, our report urges 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, we 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.

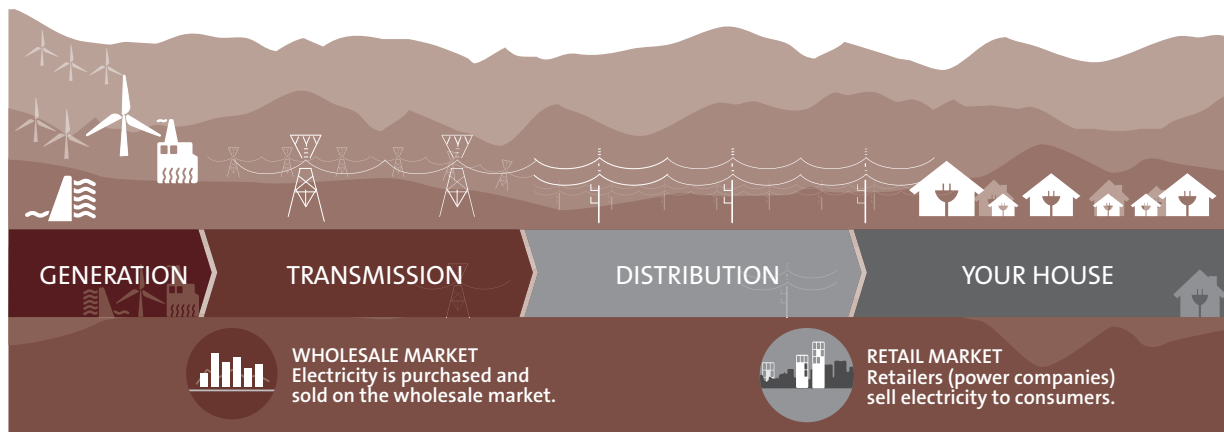
Vital statistics:

- 40 pages
- Presented to Parliament on Tuesday 28 June 2016
- Contact: reports@oag.govt.nz

In 2014/15, the mixed-ownership model companies took steps to make their financial statements more readable. Each took a different approach, and our report encourages other entities in the energy sector to look to the examples they have set for potential improvements to their own reporting.

We plan to carry out further work to produce case studies on the asset management practices of electricity distribution businesses. In particular, we 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.

The structure of the electricity industry



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