

# WAIPA NETWORKS TRUST

Ownership Review 1 April 2011

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## 1. Executive Summary

The Trustees of Waipa Networks Trust and the Directors of Waipa Networks Limited as required by the terms of the Waipa Networks Trust Deed have considered various ownership options for Waipa Networks, including:

- Maintaining the current Trust ownership.
- A distribution of shares to Connected Consumers.
- Sale of shares to Public and/or Institutional Investors.
- Creation of a Customer Co-operative.

In preparing this report the Trustees and Directors considered:

- The results of independent surveys of Connected Consumers (Key Research).
- Comparative data sourced from the Commerce Commission and the Ministry of Economic Development.
- The Company's financial results.
- Performance against Statement of Corporate Intent objectives

There are considerable benefits for Connected Consumers offered by its current ownership.

Since the 2006 ownership review the following benefits have been delivered to Connected Consumers.

- Provided discounts of \$23.5 million – averaging \$1,021 for every Network Connection Point.
- Minimised costs without compromising service.
- Maintained low tariffs resulting in savings for Connected Consumers.
- Maintained a strong emphasis on security of supply in an effort to minimise inconvenience.

Since its formation in 1993 the Trust has through Waipa Networks distributed the following to Connected Consumers:

- Distributed over \$36 million (net of tax) in dividends and capital monies – averaging \$1,800 for every Network Connection Point at the time.
- Provided discounts of \$41 million – averaging \$1,775 for every Network Connection Point.

The Trustees and Directors consider that not all of these benefits would have been shared with Connected Consumers under different ownership structures, including low tariffs and the \$77 million in direct cash benefit. Also the August 2010 Key Research survey revealed overwhelming support (91%) for retaining the existing Trust Ownership.

The Trustees and Directors are therefore unanimous in proposing Waipa Networks Limited continue to be 100% Trust owned.

## **2. Background**

Waipa Networks is a Company formed under the Energy Companies Act 1992. The corporatisation of the Te Awamutu and Cambridge Electric Power Boards into Waipa Networks was the result of Central Government policy that was designed to put commercial and competitive pressure onto the electricity industry.

The corporatisation process involved the preparation of an Establishment Plan that, amongst other things, was required to address the question of Waipa Networks' ownership. The Establishment Plan required the consent of the Minister of Energy.

Waipa Networks, like many other Power Boards, chose to create a consumer trust as its owner. Early in the corporatisation process the Minister of Energy signalled he did not consider consumer trusts to be ideal owners but would allow them initially on the proviso that an ownership review was conducted within a reasonable time after the Company was established and periodically thereafter.

As a result the Trust Deed contains the requirement for an Ownership Review by Waipa Networks and its shareholder (the Trust) at regular intervals.

## **3. Trust Deed**

Section 4 of the Trust Deed provides for an ownership review initially within three years of Waipa Networks being formed and thereafter at intervals of no more than five years, or at any time when requested to do so by 10 percent or more of the Connected Consumers of Waipa Networks.

The last ownership review was in 2006, and now five years later the 2011 review is being undertaken.

The Trustees must prepare a report considering proposals and available options for the future ownership of the shares and other assets comprising the Trust Fund. Section 4 of the Trust Deed details the contents of the report and is attached as Appendix A.

Other than the requirements of the Trust Deed, there are no legal or statutory obligations on Waipa Networks or the Trust to proceed with an ownership review.

The mandatory content of the report is summarised below:

- An analysis of Waipa Networks performance (see Item 5)
- Details of the advantages and disadvantages of Trust ownership (see Item 6.1)
- An analysis of various ownership options considered, including a share distribution to Connected Consumers, a sale of shares to the public, a sale of shares to institutional investors, and retention by the Trust (see Item 6)
- A comparison of Waipa Networks performance with other energy companies (see Item 5)
- The conclusions made as to the most appropriate form of ownership (see Item 7)
- The conclusions of any trustee who differed from the Trust's consensus view (see Item 7)

- A statement of the view of the Directors of Waipa Networks regarding future ownership of the shares and other assets (see Item 7)
- The conclusions of any director who differed from the Board's consensus view (see Item 7)
- A summary of professional advice (if any) obtained (see Item 7).
- Finally a statement as to whether or not any views of the public were taken into account (see Item 8).

#### **4. Framework for Comparative Analysis**

In order to measure performance one has to have some targets or objectives to compare to. These may vary depending on the ownership structure, for example a remote shareholder, such as an overseas company, would be focussed on maximising profit and would have no reason to promote energy efficiency.

Waipa Networks dream is:

***“To be recognised in our community as a leader in  
life improving energy services and solutions.”***

And our focus is to:

**“Deliver power safely all day every day.”**

Our Greatest Imaginable Challenge is:

**“Connected Consumers to receive a distribution  
equivalent to the total Waipa Networks  
line charges.”**

The shareholders objectives for Waipa Networks are contained in the Energy Companies Act, Waipa Networks' Statement of Corporate Intent and the Waipa Networks' Trust Deed.

More detailed targets are included in Waipa Networks Asset' Management Plan which is publicly available.

The key components of these objectives are detailed below.

#### **Energy Companies Act 1992**

Because a majority shareholding (100%) in Waipa Networks is held by the Trust it is governed by the Energy Companies Act 1992 which states:

*The principal objective of the Company shall be to operate as a successful business. In seeking this objective the Company shall have regard to the desirability of ensuring the efficient use of energy.*

*All decisions relating to the operation of the Company shall be made in accordance with the Statement of Corporate Intent.*

Waipa Networks' Statement of Corporate Intent is prepared by the Directors each year and approved by the Trust.

### **Statement of Corporate Intent**

The Statement of Corporate Intent has the following key objectives:

- A long term strategy.
- Operate as a successful business.
- Continually improve security of supply.
- Excellent customer service and maintaining good public relations.
- Minimise costs whilst maintaining quality services.
- Promote energy efficiency.

The Statement of Corporate Intent also lists key performance indications and targets against which Waipa Networks reports each year. These key indicators cover the following areas of performance:

- Financial.
- Network costs.
- Asset utilisation.
- Reliability.
- Occupational Health & Safety.

### **Trust Deed**

The Trust Deed has the following key objectives.

- To encourage and facilitate Waipa Networks in meeting its objective of being a successful business by achieving an adequate return on the Company's assets.
- Distribute the ownership benefits of the shares in Waipa Networks to Connected Consumers in their capacity as owners.

## **5. Analysis of Waipa Networks' Performance and Comparisons with other Lines Companies**

### **Long term strategy:**

The Trust has a remaining life of over 60 years and at the end of that time a new Trust could be created to replace it, so the focus is very much long term. Waipa Networks reflects this long term outlook by:

- Maintaining its assets in good repair and planning for their long term development as described in the Asset Management Plan;
- Creating annual budgets and ten year financial plans to provide funding for the network development and to ensure the business is sustainable in the long term

The Statement of Corporate Intent provides a three year projection based on this information.

Waipa Networks' success can be demonstrated by:

- Eighteen years successful operation.
- Consistent low prices to consumers throughout significant industry changes by successive governments.
- Significant financial benefits to Connected Consumers via dividends, return of capital and discounts.
- Continual improvement in reliability and quality of supply to consumers.
- Building and maintaining a distribution network that meets the needs of all existing and new consumers.
- Consistently performing well when compared with other electricity distribution companies over the full range of performance measures used by industry regulators.
- Consistently producing high levels of satisfaction in independent consumer surveys.

### **Successful business:**

#### *Profitability:*

Each year through the Statement of Corporate Intent, the Directors in conjunction with the Trustees set targets for Waipa Networks.

Appendix B(i) contains a table that demonstrates Waipa Networks' high success rate in achieving its profitability performance targets.

Appendices B(ii), and (iii) are extracts from the Commerce Commission's Information Disclosure Database 2010. These tables provide independent benchmarking of Waipa Networks' results and show the financial performance as above average.

Waipa Networks is comfortable with its financial performance as the focus is to provide Connected Consumers with low cost services rather than generate high profits.

#### *Pricing:*

With a monopoly business there is a real risk that customers are subjected to excessively high pricing and the consumer trust structure was put in place as protection against such an occurrence. This decision was strongly supported by the community during the public consultation process undertaken when Waipa Networks was established.

This concern about the risk of monopoly pricing prompted the government to implement a price and quality threshold regime through the Commerce Commission. In the initial regulatory period 2004-09, Waipa Networks was one of only three distribution companies allowed to raise prices by more than inflation (CPI +1%). By doing this the Commission publicly recognised our low prices.

The Commerce Commission further acknowledged the natural protection a consumer trust structure provides against excessive pricing by exempting Waipa Networks and similar consumer trusts from the 2010-15 price and quality threshold regime.

Waipa Networks line charges are well below average in the Commerce Commission's Information disclosure statistics as shown in Appendix C(i).

Appendix C(ii) has been derived from the most recent Ministry of Economic Development's Quarterly Survey of Domestic Electricity Prices. It indicates Waipa Networks has very low prices compared to the rest of the industry, in fact we have the third lowest price.

Clearly Waipa Networks is performing exceptionally well in this area, especially while at the same time producing a healthy level of profitability, ensuring long term sustainability of the Company.

### **Security of Supply:**

The electricity industry uses several measures to determine the extent that network faults impact upon Connected Consumers. Three important measures are CAIDI (the average length of each interruption), SAIDI (the average minutes of lost supply per customer per year), SAIFI (average number of interruptions per customer per year). Waipa Networks sets itself challenging targets and the results of are shown in Appendix D(i).

Appendices D(ii) and (iii) are derived from the Commerce Commission's Information Disclosure Database 2010, they show our performance compared with other lines companies. The strategies employed to improve our performance are:

- Managing the clearance of trees close to power lines.
- Use of live line techniques.
- Increased automation of the distribution system.
- Increased segmentation of the distribution system.

The 2010 Key Research survey asked Connected Consumers "How satisfied are you with the delivery of electricity to your property overall?" The results showed that 94% of consumers are satisfied or very satisfied with Waipa Networks performance in this area.

### **Customer Service and maintaining good public relations:**

Waipa Networks bills Electricity Retailers for the services it provides to Connected Consumers. The Company's key interfaces with Connected Consumers are:

- 24 hour faults service.
- Field staff working on the Network and Connected Consumers properties.
- Quality of supply issues raised either with Waipa Networks or through retailers and resolved directly with the customer.
- Discount payment letters, monthly advertorials, other advertising and press releases.
- Sponsorship and other public relations programmes.
- Regular independent surveys.
- Negotiating to have trees trimmed away from power lines.

The 2010 survey conducted by Key Research asked Connected Consumers “How strongly do you agree or disagree with this statement: Waipa Networks is a part of our local community”. The results were 80% of customers agreed with the statement (42% strongly).

### **Costs:**

Waipa Networks is a monopoly so it is important to ensure costs are scrutinised.

Appendix E(i) shows Waipa Networks has met the majority of its targets for costs. Rising costs are the result of a specific strategy to improve reliability and security of supply by cutting trees and increasing automation of manual processes. Waipa Networks’ costs are low by industry standards. Expenditure on the Network has been increased in the last two years by taking advantage of the downturn in private contracting work to improve the quality of the network.

The Commerce Commission’s Information Disclosure Database 2010 statistics collate operational costs at a per customer level, Appendix E(ii) shows our ranking against other companies, for total cost per customer we rank 8<sup>th</sup> lowest.

These statistics demonstrate Waipa Networks is focused and successful in controlling costs.

### **Energy efficiency:**

Energy efficiency for Waipa Networks has been defined as:

- reducing the loss of energy in transmission where economic to do so;
- increasing the utilisation of the network assets to reduce the standing energy losses of idle equipment; and
- employing demand side management to control water heating and other storage devices to manage the system maximum demand.

Targets have been set in the Statement of Corporate Intent to help indicate the energy efficiency of the network as shown in Appendix F(i).

Appendix F(ii) is derived from the Commerce Commissions Information Disclosure Database 2010 and benchmarks our capacity utilisation against other lines companies. Waipa Networks ranks 12 out of 29 for efficiency of capacity utilisation.

Waipa Networks promotes energy efficiency through our website and advertorials in the local papers. We also are the principal sponsor of Sustainable Cambridge, an organisation whose aim is to “encourage, educate and empower individuals and groups within the Cambridge area to become more sustainable”.

When making investment decisions on network energy efficiency a holistic approach is taken whereby the total cost impact on the Connected Consumer is taken into consideration, not just the direct cost to Waipa Networks. For example when purchasing new network assets the decision will be based on total life time costs including energy losses. Energy losses are a cost borne by the energy retailer and passed onto the Connected Consumer, not Waipa Networks.



## 6. Ownership Options

The following ownership options have been evaluated:

- Share distribution to Connected Consumers.
- Share sale to the Public or Institutional Investors.
- Consumer Co-operative.
- Consumer Trust.

100% Trust ownership has been taken as the base case and subjected to rigorous analysis. This is Waipa Networks' existing ownership structure and allows the other options to be compared with it.

Key considerations for the ownership structure of Waipa Networks are:

- Consumer focus.
- Value to Connected Consumers.
- Local control.
- Access to capital.
- Management disciplines.
- Administrative simplicity.

### 6.1 Trust Ownership (The base case)

*Consumer Focus – The Trust Deed Protects Connected Consumers:*

Connected Consumers elect Trustees, who in turn appoint Directors, and therefore have power to influence the direction of Waipa Networks. The focus has been on cost control, low prices and excellent service to the benefit of Connected Consumers.

Any sale of more than 40% of the shares must have the support of a postal vote of Connected Consumers. In addition Connected Consumers must agree to any amendment to the Trust Deed. The agreement for these issues must be at least 60% of those who vote.

*Value to Connected Consumers:*

In strictly commercial terms the value of a company is based on its ability to make profits for the owners on a sustainable basis. The earnings are based on projections of future income less the costs of the business and are discounted by an appropriate interest rate to produce a net present value. If the Trust owned a normal commercial company this would be the minimum that would be expected from a sale of Waipa Networks. However this model assumes that Waipa Networks is operating in a commercial competitive market and obtaining the maximum sustainable profit from its business.

The Trust has traditionally kept prices low. This policy is implemented through the annual process of establishing Waipa Networks' Statement of Corporate Intent. A simple comparison with any of the neighbouring line companies will demonstrate just how low Waipa Networks prices are (see Appendix C). The low prices have created increased value for the Connected Consumer. Low prices are economically efficient where the consumer and beneficial owner are identical as is the case of Waipa Networks. Connected Consumers also receive price discounts twice a year further reducing their electricity bills.

*Local control:*

Economic theory states a competitive market creates the drive for companies to create efficiencies and pass these on to customers by way of price in order to maintain or grow market share and survive.

Where a natural monopoly exists such as an electricity distribution network this model is flawed. In New Zealand the Government has introduced a regulatory regime to monitor the industry and produce commercial disciplines on electricity distribution companies.

Maintaining trust control of Waipa Networks is a powerful defence against any risk of monopoly abuse and the local community is well aware of this, as identified by almost unanimous support for the community trust ownership structure, at the time the Trust was established, at previous ownership reviews and in the latest 2010 Key Research survey.

*Access to capital:*

Waipa Networks can access further capital by either raising debt or issuing further share capital. In the past Waipa Networks had surplus capital and returned \$21.25M to shareholders.

Subject to the Trust's consent the current ownership structure enables up to 66% of Waipa Networks current market value to be issued as additional share capital. Any share issues in excess this would reduce the Trust shareholding below 60% and would require a poll of Connected Consumers.

With no debt Waipa Networks has access to a substantial amount of loan finance. This combined with the ability to project finance any new business venture means a need for further equity is unlikely in the near future.

*Management disciplines:*

The Capital Market discipline exercised by tradable shares means if a company's directorate and management do not perform the shares will be discounted in value. This creates an opportunity for someone to buy the shares, obtain control, change the business structure or management and increase the value of the shareholding for themselves.

The analysis of Waipa Networks performance as detailed in Item 5 shows the directors and management are performing well.

*Administrative simplicity:*

The cost of the Trust structure is considerably less than the cost of a share registry for a large number of shareholders, continual disclosure and the requirements as a listed company.

*The main advantages and disadvantages of Trust ownership:*

## Advantages

- Direct investors tend to have a short term focus based on seeking the highest return for their investment, the Trust has the long term outlook necessary for a long term utility investment.
- The Trust shareholding is a 100% parcel and carries the power to influence Waipa Networks.
- Connected Consumers have some measure of control over the performance of Waipa Networks as they elect the Trustees who appoint the Directors.
- Provides maximum flexibility for any future options or changes.
- Being a majority shareholder the Trust puts pressure on Waipa Networks board to perform.
- The Trust has public support.
- Lower returns reflected in lower prices and discounts mean efficient distribution of the benefits of ownership.
- Statement of Corporate Intent is a clear contract between Waipa Networks and (Trust) shareholder.

## Disadvantages

- Ownership is through “elected representatives” (Trustees) and a focus on “voters” may influence decision making.
- Capital expansion may be limited due to the Trust requirement to maintain 60% of the equity, without a vote of Connected Consumers.
- Commercial incentives could be weak.
- Risk of capital market disciplines being absent.

## 6.2 Distribution of shares to Connected Consumers

History has shown that where a share distribution to Connected Consumers has occurred the likelihood is the shares will be sold within a relatively short period. An interested party could gain majority control relatively cheaply and easily.

Small parcels of shares carry no influence and are unlikely to carry a premium price. The result is ultimately the same as selling outright control of Waipa Networks but the premium for a 100% ownership is lost.

It would be preferable to sell Waipa Networks outright thereby maximising the price paid and distributing the proceeds to Connected Consumers including the benefit from any premium paid.

If Waipa Networks were sold there is an exposure to increased line charges. The current Commerce Commission price threshold regime mitigates the exposure to price rises but does not completely eliminate it.

With private ownership the current focus on customer service and constantly improving service levels may be lost.

There is also the administration burden of establishing a share registry albeit for a potentially short period.

For the above reasons a share distribution to Connected Consumers is not recommended.

### **6.3 Sale of shares to the Public or Institutional Investors**

The consideration for selling shares to the general public or institutional investors only arises if:

- a) Waipa Networks requires more capital, or
- b) the Trust wishes to reduce or eliminate its shareholding and make a capital return to Connected Consumers.

The Trust Deed does not allow the Waipa Networks Trust to invest in anything but Waipa Networks Ltd, Government Stock, Banking institutions and to a limited extent property.

Neither of these scenarios are envisaged in the near future however some key issues follow:

- Any institutional or public investor will heavily discount the price it will pay for shares where the control of Waipa Networks remains with an elected body that is exposed to political (voter) influence.
- Any partial sale of the Trust's holding will introduce the requirement to maximise Waipa Networks profits and to that end increase prices.
- If the Trust decides to reduce its shareholding it would be better to sell a controlling interest or sell Waipa Networks outright thereby maximising the price paid. The proceeds could then be distributed to the Connected Consumers.

For the reasons outlined above a partial sale of shares to the general public or institutional investors is not recommended.

Selling 100% of the shares of Waipa Network is the best way of maximising their value. Under this scenario a large investor will pay a premium price to gain control

With control the new owner will need to manage the company in a way that generates their expected rate of return on their investment. This is achieved by lowering costs and/or raising prices. Connected consumers would also lose their current tax efficient discounts.

Analysis indicates the current benefits of ownership (low prices, tax efficient discounts including the return of loss rentals, and growing equity value) are likely to exceed, by a considerable margin, the value an external investor would be willing to pay for the Company in the current regulatory environment where the Commerce Commission will limit the new owner's ability to raise profitability by increasing prices.

### **6.4 A Customer Co-operative**

Both the Customer Co-operative and Consumer Trust structures are designed to distribute the benefits of ownership to the Connected Consumer.

Although they both provide a similar community ownership structure, the co-operative would have significant administration costs. There is a substantial annual turnover of Connected Consumers and the logistics of issuing and repurchasing share parcels, financing the purchase of shares by new Connected Consumers from dividends, etc. makes this option administratively costly.

Because of the higher cost of operating a customer co-operative compared with a consumer trust for no additional benefit this form of ownership structure is not recommended.

## **6.5 Conclusion**

100% Trust ownership protects the interest of Connected Consumers by ensuring Waipa Networks focuses on low costs, low prices and quality service which add considerable value to the Connected Consumers. There are no significant disadvantages with the Trust ownership structure for Waipa Networks. For these reasons continued 100% Trust ownership is recommended.

## **7. Connected Consumer Views and Other Data Used**

In compiling the Report the views of Connected Consumers were obtained through a biannual survey conducted by Key research. The results of these surveys consistently provide overwhelmingly endorsement (91%) for the retention of Trust ownership. The views of Connected Consumers will be considered further prior to a final decision on the future ownership of Waipa Networks as provided for in item 9 below.

In compiling the report extensive use was made of the Commerce Commission's Information Disclosure Database 2010. Use was also made of Ministry of Economic Development comparative tariff information.

No independent advice was sought in writing this report.

## **8. Conclusions of the Trustees and Directors**

This Review was undertaken as a joint exercise by the Trustees and the Directors of Waipa Networks, who are named in Appendixes G and H.

All the options have been considered and the Trustees and Directors believe that continued 100% Trust Ownership provides the best value for the community. The Trustees and Directors are therefore unanimous in proposing Waipa Networks Limited continue to be 100% Trust owned.

## **9. Public Consultation**

This document is issued for public information and all comments or feedback will be welcomed by the Trust.

All submissions will be collated by the Trust and considered in due course.

Submissions should be addressed to:

Submissions to the Trustees  
Waipa Networks Trust  
PO Box 34  
**TE AWAMUTU**

Closing date for submissions: 4pm Thursday 30<sup>th</sup> June 2011.

## **Appendix A**

### **PROVISIONS OF THE TRUST DEED**

**Source: Waipa Networks Trust Deed**

#### **4. REVIEW PROCEDURE**

##### **4.1 Report:**

Within 3 years of the date of this Deed and thereafter at intervals of no more than five years or at any time upon request by not less than 10% of Connected Consumers, the Trustees shall prepare a report considering proposals and available options for the future ownership of the shares and the other assets comprising the Trust Fund. Such report shall contain the following detail:

- 4.1.1 an analysis of the performance of the Company to the date of the report together with a discussion of the advantages and disadvantages of trust ownership;
- 4.1.2 an analysis of the various ownership options considered including without limitation, a share distribution to Connected Consumers, a sale of shares to the public, a sale of shares to institutional investors and retention by the Trust;
- 4.1.3 a comparison of the performance by the Company with the performance of other similar energy companies;
- 4.1.4 the conclusions of the Trustees as to the most appropriate form of ownership together with an indication whether the conclusions are unanimous and if the decision is not unanimous, a summary of the conclusions of the dissenting Trustees shall be included;
- 4.1.5 the matters referred to in clauses 4.6(a) to 4.6(c) if a distribution is recommended;
- 4.1.6 a statement of the view of the Directors of the Company regarding future ownership of the shares and other assets together with an indication whether the views are unanimous, and if not, a summary of the views of the dissenting Directors;

- 4.1.7 a summary of the professional advice (if any) obtained in respect of the preparation of the report; and
- 4.1.8 a statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership.
- 4.2 **Public Availability:** The Trustees shall make the report available to the public in accordance with Clause 13.
- 4.3 **Special Consultative Procedure:** The Trustees shall in respect of the report and no later than 1 month after the date of the report, implement the Public Consultative Procedure.
- 4.4 **Decision:** Following completion of the Public Consultative Procedure and in any event not later than 6 months after the report required by Clause 4.1 is completed, the Trustees shall meet and, after taking due account of the views expressed by the public and the Directors, the Trustees shall decide whether to:
- (a) retain the shares and/or the other assets of the Trust; or
  - (b) dispose of a portion of the shares and/or the other assets of the Trust and retain the remainder in the Trust; or
  - (c) dispose of all of the shares and/or the other assets of the Trust.
- 4.5 **Notification of Decision:** The Trustees shall notify the public in accordance with Clause 13 of the decision made under clause 4.4.
- 4.6 **Distribution Plan:** If the shares or any portion of them are to be distributed the Trustees shall prepare a Distribution Plan. The Distribution Plan shall contain the following details:
- (a) to whom the shares are to be distributed;
  - (b) the time and manner in which the shares are to be distributed; and



- (c) whether the shares are to be distributed without consideration, at a concessionary consideration or for proper consideration.

4.7 **Notification of Distribution Plan:** The Distribution Plan shall be notified to the public in accordance with Clause 13 and following notification the Trustees shall be obliged to comply with the requirements of and ensure that the Distribution Plan is implemented unless the Trustees are unable to do so as a result of matters beyond the reasonable control of the Trustees.

4.8 **Payment for Review:** The Company shall be entitled to be paid out of the Trust Fund all reasonable costs incurred in connection with the ownership review carried out pursuant to this Clause 4.

4.9 **Sale of Shares:** Notwithstanding anything to the contrary in this Deed (but subject to Clause 4.10 and to Clause 1.1 (y) Termination Date) the Trustees will not:

- (a) Sell any shares in the Company, or
- (b) Vote affirmatively on any resolution to allot or issue any shares in the Company to any person other than the Trustees.

**Unless** a vote of Connected Consumers is held and sixty percent or more in number of those Connected Consumers who vote on the question approve the sale or allotment or issue of those shares.

4.10 **Result of Sale of Shares:** Clause 4.9 will not apply unless as a result of the sale of shares or the allotment or issue of shares:

- (a) The Trustees will no longer hold 60% or more in number of the shares in the Company, and
- (b) Those shares which the Trustees own cease to give or confer on the Trustees 60% or more of the voting power or rights of all shareholders in the Company.

4.11 **Vote:** The Trustees may in their discretion determine the method and procedures for carrying out the vote referred to in Clause 4.9, provided that:

- (a) Subject to Clause 4.11 (d), the Trustees shall give written notice to all the Connected Consumers of the vote, and of the method or procedures adopted by the Trustees for carrying out the vote.
- (b) A period of not less than 21 days shall be allowed between the date the Connected Consumers are notified of the vote and the date by which the votes of Connected Consumers will be disallowed if not received by the Trustees.
- (c) Each Connected Consumer shall be entitled to one vote for each metered Network Connection Point.
- (d) The Trustees shall give notice of the vote to the Connected Consumers through the post directed to the address of each Connected Consumer in the records of the Trust, or if there are no such records, in the records of the Company.
- (e) The notice referred to in Clause 4.11(d) shall be deemed to have been duly received two days after the date of posting of the notice by the Trustees.

## **Appendix B**

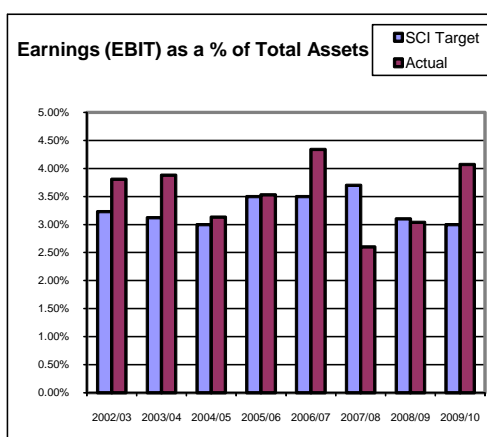
### **PROFITABILITY**

- B (i) Profitability Performance
- B (ii) Net Profit Margin
- B (iii) Return on Investment

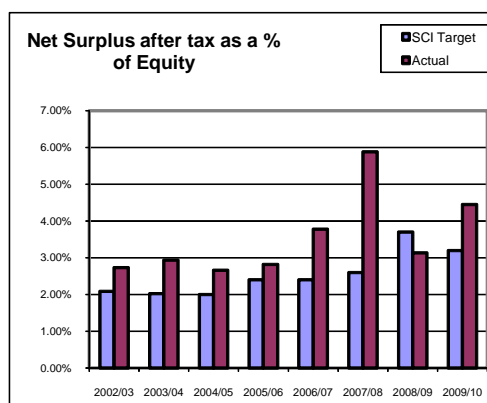
## Profitability Performance measured against the Statement of Corporate Intent (SCI)

### Financial performance indicators:

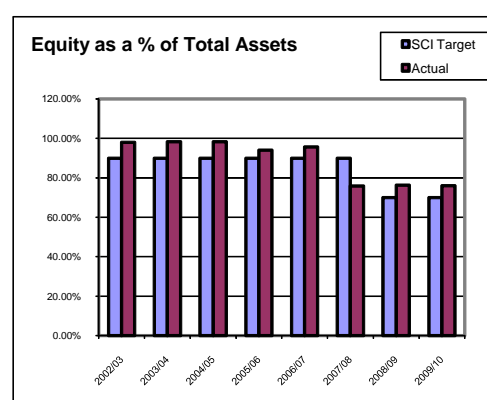
	Profit before interest and tax as a percentage of total assets	
	SCI Target	Actual
2002/03	3.23%	3.81%
2003/04	3.12%	3.88%
2004/05	3.00%	3.13%
2005/06	3.50%	3.53%
2006/07	3.50%	4.34%
2007/08	3.70%	2.60%
2008/09	3.10%	3.04%
2009/10	3.00%	4.07%



	Profit after tax as a percentage of Equity	
	SCI Target	Actual
2002/03	2.09%	2.73%
2003/04	2.02%	2.94%
2004/05	2.00%	2.66%
2005/06	2.40%	2.82%
2006/07	2.40%	3.78%
2007/08	2.60%	5.88%
2008/09	3.70%	3.13%
2009/10	3.20%	4.45%



	Equity as a percentage of total assets	
	SCI Target	Actual
2002/03	>90.00%	97.99%
2003/04	>90.00%	98.22%
2004/05	>90.00%	98.24%
2005/06	>90.00%	94.00%
2006/07	>90.00%	95.65%
2007/08	>90.00%	75.84%
2008/09	70.00%	76.33%
2009/10	70.00%	76.05%



### Net Profit Margin

	EBIT \$000	EBIT as a % of Line Revenue	EBIT cents/kWh
Alpine Energy	10,668	32.2%	1.5
Aurora Energy	30,588	41.9%	2.4
Buller Electricity	2,279	42.5%	4.7
Centralines	3,048	35.3%	2.8
Counties Power	9,059	30.6%	1.9
Eastland Network	10,321	37.3%	3.7
Electra	3,578	17.6%	0.9
Electricity Ashburton	13,228	47.5%	2.5
Electricity Invercargill	4,897	31.9%	1.8
Horizon Energy Distribution	9,254	34.3%	1.7
MainPower New Zealand	14,484	41.2%	2.8
Marlborough Lines	7,163	27.8%	1.9
Nelson Electricity	2,295	27.6%	1.6
Network Tasman	13,903	39.2%	2.4
Network Waitaki	5,891	47.4%	2.4
Northpower	15,266	30.4%	1.6
Orion New Zealand	73,466	38.6%	2.2
OtagoNet Joint Venture	11,883	46.9%	3.1
Powerco	128,092	43.9%	3.0
Scanpower	2,145	34.7%	2.6
The Lines Company	9,676	35.4%	3.1
The Power Company	17,640	40.3%	2.6
Top Energy	7,318	27.2%	2.2
Unison Networks	41,702	40.2%	2.6
Vector	240,700	45.2%	2.9
Waipa Networks	7,939	41.2%	2.3
WEL Networks	38,029	48.2%	3.3
Wellington Electricity Ltd	59,138	40.2%	2.4
Westpower	6,474	35.4%	2.2
Mean	27,590	37.3%	2.5
Median	10,321	38.6%	2.4
Minimum	2,145	17.6%	0.9
Maximum	240,700	48.2%	4.7

Derived from Commerce Commissions Information Disclosure Database 2010.

EBIT = Earnings before Interest and Tax

<b>Financial Measures</b>		
	<b>Return on Investment</b>	
	<b>2009</b>	<b>2010</b>
Alpine Energy	11.1%	8.0%
Aurora Energy	11.5%	9.7%
Buller Electricity	7.2%	7.3%
Centralines	6.2%	6.2%
Counties Power	7.3%	4.5%
Eastland Network	9.3%	8.2%
Electra	3.2%	2.0%
Electricity Ashburton	8.8%	7.3%
Electricity Invercargill	8.8%	7.8%
Horizon Energy Distribution	11.1%	9.4%
MainPower New Zealand	10.2%	7.1%
Marlborough Lines	5.5%	3.4%
Nelson Electricity	12.6%	8.6%
Network Tasman	9.5%	8.6%
Network Waitaki	8.6%	8.1%
Northpower	7.5%	6.8%
Orion New Zealand	10.0%	8.6%
OtagoNet Joint Venture	11.2%	9.4%
Powerco	11.2%	9.4%
Scanpower	8.8%	7.0%
The Lines Company	6.1%	6.0%
The Power Company	7.6%	5.6%
Top Energy	7.0%	4.7%
Unison Networks	8.9%	8.9%
Vector	11.6%	10.3%
Waipa Networks	9.5%	9.1%
WEL Networks	12.2%	10.9%
Wellington Electricity Ltd	8.6%	11.5%
Westpower	6.9%	5.3%
Mean	8.9%	7.6%
Median	8.8%	8.0%
Minimum	3.2%	2.0%
Maximum	12.6%	11.5%

Derived from Commerce Commissions Information Disclosure Database 2010.

## Appendix C

### PRICING

- C (i) Line Charges
- C (ii) Domestic Line Charges

## Line Charges

	Overall Average cents/kWh	Small User cents/kWh	Medium User cents/kWh	Large User cents/kWh
Alpine Energy Limited	4.56	6.65	5.92	3.50
Aurora Energy	5.70	6.95	6.05	3.96
Buller Electricity	11.18	12.64	8.97	8.83
Centralines Limited	8.01	10.71	8.14	5.76
Counties Power	6.22	6.77	7.45	5.31
Eastland Network	9.88	12.95	7.96	4.89
Electra Limited	4.89	5.52	-	3.02
Electricity Ashburton	5.26	6.11	6.20	5.70
Electricity Invercargill	5.59	6.61	5.94	3.39
Horizon Energy Distribution	4.99	10.24	9.07	6.14
Mainpower New Zealand	6.82	7.80	7.82	7.03
Marlborough Lines Limited	6.98	8.13	7.48	6.12
Nelson Electricity Limited	5.64	6.70	6.65	4.80
Network Tasman Limited	5.70	7.25	8.84	5.75
Network Waitaki Limited	5.15	6.17	6.61	4.78
Northpower Limited	5.28	8.59	9.12	5.95
Orion New Zealand	5.80	6.60	-	3.64
OtagoNet Joint Venture	6.59	15.48	12.39	7.84
Powerco Limited	6.80	8.72	7.07	4.52
Scanpower Limited	7.44	8.48	4.95	5.95
The Lines Company	8.80	8.70	10.15	10.07
The Power Company	6.54	9.75	7.91	3.55
Top Energy Limited	8.21	9.42	8.71	6.65
Unison Networks	6.49	8.66	6.09	3.15
Vector Lines Limited	6.41	8.96	6.90	3.81
Waipa Networks Limited	5.70	7.01	6.25	5.88
WEL Networks	6.77	7.89	6.22	4.93
Wellington Electricity Limited	5.88	7.87	4.69	3.57
Westpower Limited	6.22	9.53	8.16	7.55
Mean	6.53	8.51	6.96	5.38
Median	6.22	8.13	7.07	5.31
Minimum	4.56	5.52	-	3.02
Maximum	11.18	15.48	12.39	10.07

Derived from Commerce Commissions Information Disclosure Database 2010.



**Domestic Electricity Prices Available Up To 15 November 2010**

**Modelled NZ Domestic Consumer - 8,000 kWh per annum**

	(8,000 kWh's pa) cents/kWh
Alpine Energy	6.97
Aurora Energy (Central Otago Clyde/Crom)	11.98
Aurora Energy (Dunedin)	6.43
Aurora Energy (Queenstown)	8.51
Buller Electricity	14.12
Centralines	13.02
Counties Power	9.65
Eastland Network (Eastland)	13.00
Eastland Network (Wairoa)	13.00
Electra	8.11
Electricity Ashburton	6.54
Electricity Invercargill	7.99
Horizon Energy Distribution	11.36
MainPower	7.05
MainPower (Kaiapoi)	7.05
Marlborough Lines	11.11
Nelson Electricity	7.96
Network Tasman	7.76
Network Waitaki	7.77
Northpower	9.33
Orion NZ	8.21
OtagoNet	15.63
Powerco (Hawera)	11.34
Powerco (Manawatu)	9.16
Powerco (New Plymouth)	8.95
Powerco (Stratford)	9.07
Powerco (Tauranga)	8.41
Powerco (Thames Valley)	10.53
Powerco (Wairarapa)	10.89
Powerco (Wanganui)	9.19
Scanpower	8.81
The Lines Company (King Country)	10.60
The Lines Company (Waitomo)	9.98
The Power Company	10.32
Top Energy	11.94
Unison (Hawke's Bay)	9.81
Unison (Rotorua)	9.62
Unison (Taupo)	9.62
UnitedNetworks (Waitemata)	10.98
Vector	9.83
Waipa Networks	6.62
WEL Networks	9.04
Wellington Electricity Lines (North)	8.94
Wellington Electricity Lines (South)	8.95
Westpower	10.73
WEL Networks	7.79
Westpower	10.37
<b>Mean</b>	<b>9.66</b>
<b>Median</b>	<b>9.33</b>
<b>Minimum</b>	<b>6.43</b>
<b>Maximum</b>	<b>15.63</b>

Derived from Information from the Ministry of Economic Development.

## Appendix D

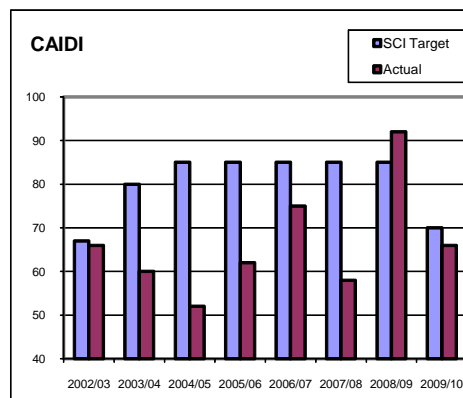
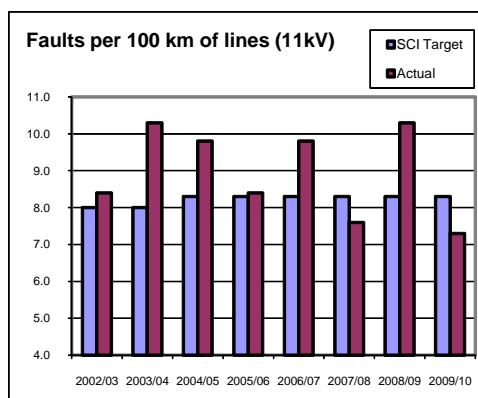
### SECURITY OF SUPPLY

- D (i) Security of Supply Performance
- D (ii) System Reliability Indices
- D (iii) Total Number of Faults

## Security of Supply Performance measured against the Statement of Corporate Intent (SCI)

Energy Reliability performance measures:

	Faults per 100 km lines (11kV)		CAIDI (Minutes per customer interrupted)	
	SCI Target	Actual	SCI Target	Actual
2002/03	8.0	8.4	67	66
2003/04	8.0	10.3	80	60
2004/05	8.3	9.8	85	52
2005/06	8.3	8.4	85	62
2006/07	8.3	9.8	85	75
2007/08	8.3	7.6	85	58
2008/09	8.3	10.3	85	92
2009/10	8.3	7.3	70	66

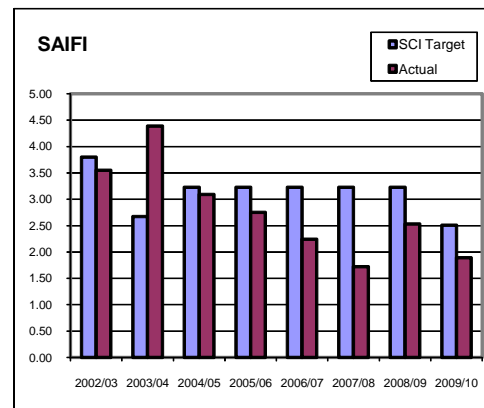
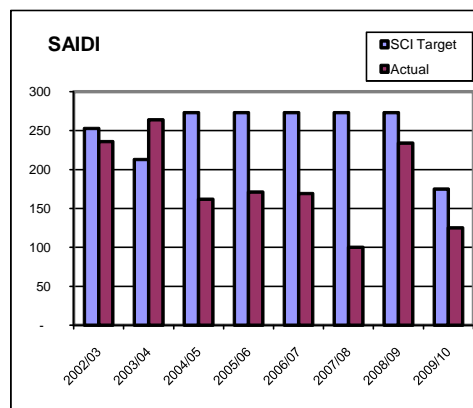


CAIDI = Customer Average Interruption Duration Index  
(Length of average interruption seen by customer in minutes.)

**Security of Supply Performance measured against the Statement of Corporate Intent (SCI)**

**Energy Reliability performance measures:**

	SAIDI (Minutes per customer)		SAIFI (Interruptions per customer)	
	SCI Target	Actual	SCI Target	Actual
2002/03	253	236	3.80	3.55
2003/04	213	264	2.67	4.39
2004/05	273	162	3.23	3.09
2005/06	273	171	3.23	2.75
2006/07	273	169	3.23	2.24
2007/08	273	100	3.23	1.72
2008/09	273	234	3.23	2.53
2009/10	175	125	2.51	1.89



SAIDI = System Average Interruption Duration Index  
(Average number of minutes of non-supply per customer per year in minutes.)

SAIFI = System Average Interruption Frequency Index  
(Average number of interruptions per customer per year.)

System Reliability Indices						
	Total			Network Planned and Unplanned		
	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
Alpine Energy	332.4	2.2	152.5	332.4	2.2	152.5
Aurora Energy	82.7	1.5	55.9	72.5	1.3	54.1
Buller Electricity	302.3	2.2	135.0	302.3	2.2	135.0
Centralines	132.9	2.3	56.8	133.0	2.3	56.8
Counties Power	98.1	2.3	42.4	78.3	2.1	36.9
Eastland Network	322.7	3.9	83.2	312.3	3.5	90.3
Electra	163.3	3.2	51.9	163.3	3.2	51.8
Electricity Ashburton	186.1	1.5	126.5	186.1	1.5	126.6
Electricity Invercargill	30.0	0.8	35.6	30.0	0.9	35.3
Horizon Energy Distribution	139.9	2.4	59.2	139.9	2.4	59.3
MainPower New Zealand	143.1	2.0	70.7	140.1	1.8	76.6
Marlborough Lines	283.8	2.8	100.4	283.8	2.8	100.3
Nelson Electricity	169.4	1.8	96.5	79.3	0.8	104.3
Network Tasman	226.4	2.6	87.4	148.3	1.8	84.3
Network Waitaki	64.3	1.5	43.9	64.3	1.5	44.0
Northpower	132.3	2.4	55.8	132.3	2.4	55.8
Orion New Zealand	61.2	0.6	106.2	61.2	0.6	107.3
OtagoNet Joint Venture	341.2	3.8	90.3	332.6	3.3	102.0
Powerco	253.2	2.6	96.5	223.1	2.5	90.0
Scanpower	65.9	0.7	89.0	65.9	0.7	89.0
The Lines Company	293.3	2.6	111.5	293.3	2.6	111.5
The Power Company	214.4	3.2	67.8	209.5	2.9	72.7
Top Energy	463.0	4.2	110.4	463.0	4.2	110.5
Unison Networks	110.9	1.6	69.7	110.9	1.6	69.7
Vector	119.7	1.6	76.7	66.8	1.0	65.5
Waipa Networks	284.0	3.3	87.3	126.8	1.9	66.4
WEL Networks	75.0	1.2	64.6	75.0	1.2	64.6
Wellington Electricity Ltd	40.6	0.6	69.7	40.6	0.6	68.9
Westpower	279.3	2.0	138.3	279.3	2.0	138.3
Mean	186.6	2.2	83.8	170.6	2.0	85.9
Median	163.3	2.2	83.2	139.9	2.0	76.6
Minimum	30.0	0.6	35.6	30.0	0.6	35.3
Maximum	463.0	4.2	152.5	463.0	4.2	152.5

Derived from Commerce Commissions Information Disclosure Database 2010.

The Total Section includes loss of bulk supply from Transpower.

Network Planned and Unplanned are the responsibility of the local network (Waipa Networks).

Definitions for SAIDI, SAIFI and CAIDI are on Appendix D (i).

**Total Number of Faults**

	Number of Interruptions	Faults per 100 circuit km
Alpine Energy	403	3.4
Aurora Energy	678	9.1
Buller Electricity	124	13.3
Centralines	248	8.6
Counties Power	272	4.3
Eastland Network	503	10.2
Electra	165	4.9
Electricity Ashburton	524	6.0
Electricity Invercargill	32	9.9
Horizon Energy Distribution	157	5.5
MainPower New Zealand	533	4.5
Marlborough Lines	650	14.6
Nelson Electricity	38	9.9
Network Tasman	352	6.1
Network Waitaki	230	4.9
Northpower	568	7.1
Orion New Zealand	816	6.7
OtagoNet Joint Venture	599	4.7
Powerco	3,066	6.3
Scanpower	137	5.9
The Lines Company	1,365	21.1
The Power Company	874	5.2
Top Energy	449	7.5
Unison Networks	785	6.2
Vector	1,455	11.4
Waipa Networks	180	7.3
WEL Networks	282	7.3
Wellington Electricity Ltd	334	12.6
Westpower	220	5.3
Mean	553	7.9
Median	403	6.7
Minimum	32	3.4
Maximum	3,066	21.1

Derived from Commerce Commissions Information Disclosure Database 2010.

## Appendix E

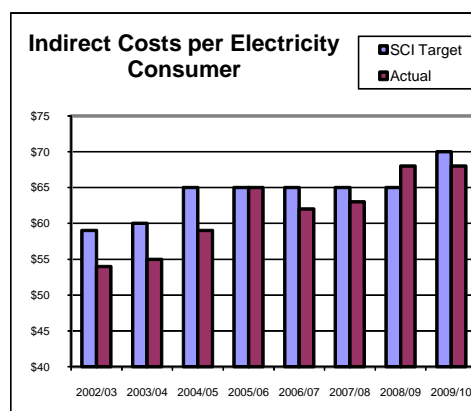
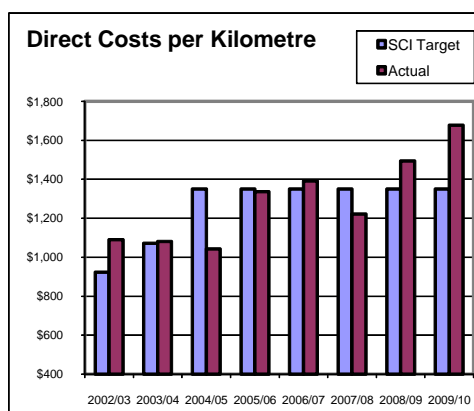
### COSTS

- E (i) Cost Performance Measured
- E (ii) Total Costs per Customer

## Cost Performance measured against the Statement of Corporate Intent (SCI)

### Cost performance measures:

	Direct Costs per Kilometre		Indirect Costs per Electricity Customer	
	SCI Target	Actual	SCI Target	Actual
2002/03	\$ 924	\$ 1,090	\$ 59	\$ 54
2003/04	\$ 1,071	\$ 1,081	\$ 60	\$ 55
2004/05	\$ 1,350	\$ 1,042	\$ 65	\$ 59
2005/06	\$ 1,350	\$ 1,336	\$ 65	\$ 65
2006/07	\$ 1,350	\$ 1,392	\$ 65	\$ 62
2007/08	\$ 1,350	\$ 1,221	\$ 65	\$ 63
2008/09	\$ 1,350	\$ 1,494	\$ 65	\$ 68
2009/10	\$ 1,350	\$ 1,678	\$ 70	\$ 68



Expenditure on the Network has been increased in the last two years to accommodate the downturn in private contracting work. Natural attrition has reduced staff levels to address this trend.



E (ii)

Total Cost per Customer		
	2009	2010
Alpine Energy	271	336
Aurora Energy	246	245
Buller Electricity	425	570
Centralines	336	329
Counties Power	272	263
Eastland Network	242	230
Electra	191	196
Electricity Ashburton	347	355
Electricity Invercargill	220	257
Horizon Energy Distribution	289	280
MainPower New Zealand	269	262
Marlborough Lines	587	650
Nelson Electricity	209	239
Network Tasman	236	205
Network Waitaki	245	255
Northpower	300	289
Orion New Zealand	199	213
OtagoNet Joint Venture	365	340
Powerco	185	181
Scanpower	270	268
The Lines Company	273	281
The Power Company	314	334
Top Energy	325	370
Unison Networks	200	238
Vector	179	171
Waipa Networks	203	218
WEL Networks	192	201
Wellington Electricity Limited	113	190
Westpower	557	578
Mean	278	295
Median	269	262
Minimum	113	171
Maximum	587	650

Derived from Commerce Commissions Information Disclosure Database 2010.

## Appendix F

### ENERGY EFFICIENCY

F (i) Energy Efficiency Performance

F (ii) Capacity Utilisation

Definitions used in these appendices:

Load Factor – Average load divided by peak load. (A measure of how well peak load is managed.)

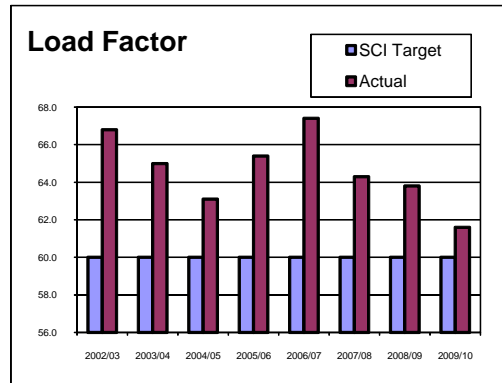
Loss Ratio – The percentage of unbilled units. (Unbilled units are the sum of physical losses, unmetered supplies and theft. Physical losses are a direct cost of transporting electricity through a network and are mostly due to the resistive heating of conductors, and transformers.)

Capacity Utilisation – Peak load divided by installed transformer capacity. (A measure indicating if excess transformer capacity has been installed.)

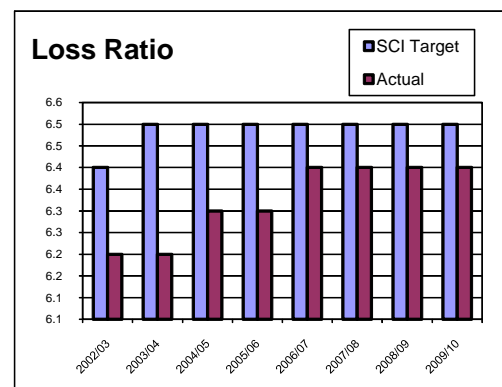
**Energy Efficiency Performance measured against the Statement of Corporate Intent (SCI)**

**Energy delivery efficiency performance measures:**

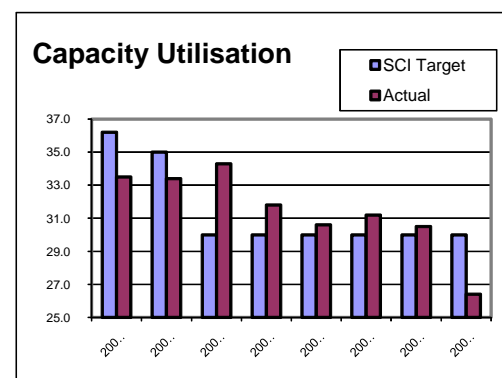
	Load Factor	
	SCI Target	Actual
2002/03	>60.0	66.8
2003/04	>60.0	65.0
2004/05	>60.0	63.1
2005/06	>60.0	65.4
2006/07	>60.0	67.4
2007/08	>60.0	64.3
2008/09	>60.0	63.8
2009/10	>60.0	61.6



	Loss Ratio	
	SCI Target	Actual
2002/03	<6.4	6.2
2003/04	<6.5	6.2
2004/05	<6.5	6.3
2005/06	<6.5	6.3
2006/07	<6.5	6.4
2007/08	<6.5	6.4
2008/09	<6.5	6.4
2009/10	<6.5	6.4



	Capacity utilisation	
	SCI Target	Actual
2002/03	>36.2	33.5
2003/04	>35.0	33.4
2004/05	>30.0	34.3
2005/06	>30.0	31.8
2006/07	>30.0	30.6
2007/08	>30.0	31.2
2008/09	>30.0	30.5
2009/10	>30.0	26.4



Load Factor – Average load divided by peak load. (A measure of how well peak load is managed.)

Capacity Utilisation – Peak load divided by installed transformer capacity. (A measure indicating if excess transformer capacity has been installed.)

Loss Ratio – The percentage of unbilled units. (Unbilled units are the sum of physical losses, unmetered supplies and theft. Physical losses are a direct cost of transporting electricity through a network and are mostly due to the resistive heating of conductors, and transformers.)

### Capacity Utilisation

	Capacity Utilisation	
	2009	2010
Alpine Energy	29.2%	27.0%
Aurora Energy	31.9%	32.8%
Buller Electricity	24.3%	21.4%
Centralines	22.2%	22.0%
Counties Power	34.1%	32.3%
Eastland Network	23.7%	23.7%
Electra	31.8%	31.4%
Electricity Ashburton	29.2%	30.0%
Electricity Invercargill	43.5%	44.5%
Horizon Energy Distribution	22.8%	23.5%
MainPower New Zealand	22.3%	21.2%
Marlborough Lines	23.4%	23.2%
Nelson Electricity	36.5%	36.8%
Network Tasman	28.0%	24.9%
Network Waitaki	27.3%	28.7%
Northpower	21.0%	20.6%
Orion New Zealand	32.1%	31.2%
OtagoNet Joint Venture	32.4%	31.5%
Powerco	26.6%	27.7%
Scanpower	24.7%	24.7%
The Lines Company	28.8%	28.2%
The Power Company	29.7%	30.0%
Top Energy	23.6%	22.5%
Unison Networks	32.7%	28.3%
Vector	35.4%	39.8%
Waipa Networks	24.4%	26.3%
WEL Networks	31.5%	37.1%
Wellington Electricity Limited	39.9%	42.5%
Westpower	20.8%	21.8%
Mean	28.8%	28.8%
Median	28.8%	28.2%
Minimum	20.8%	20.6%
Maximum	43.5%	44.5%

Derived from Commerce Commissions Information Disclosure Database 2010.

## Appendix G



### WAIPA NETWORKS TRUST

#### TRUSTEES

Keith Storey MNZM	<b>CHAIRMAN</b>
R. Ashley Reid	<b>DEPUTY CHAIRMAN</b>
Richard Johnstone	<b>TRUSTEE</b>
Carl Rist JP	<b>TRUSTEE</b>
Craig Sanders	<b>TRUSTEE</b>
Barbara Taranaki JP	<b>TRUSTEE</b>



**WAIPA NETWORKS LTD**

**DIRECTORS**

Diane Reed	<b>CHAIRMAN</b>
Richard Kadziolka	<b>DEPUTY CHAIRMAN</b>
Richard Francis	<b>DIRECTOR</b>
Keith Goodall	<b>DIRECTOR</b>
Bob Western	<b>DIRECTOR</b>
Jeff Williams	<b>DIRECTOR</b>



**WAIPA NETWORKS LTD**

**COMPANY**

**Registered Office**

240 Harrison Drive  
P O Box 505  
TE AWAMUTU 3840

Telephone: 07 872 0745  
Facsimilie: 07 870 2401

[www.waipanetworks.co.nz](http://www.waipanetworks.co.nz)

**Auditors**

Audit New Zealand  
Private Box 256  
HAMILTON  
(On behalf of the Controller and Auditor General)

**Solicitors**

Harkness Henry and Co  
Private Bag 3077  
HAMILTON