

# WAIPA NETWORKS TRUST

Ownership Review 1 April 2016

## Contents

<u>Item</u>	<u>Page</u>
1. Executive Summary	1
2. Background	2
3. Trust Deed	2
4. Framework for Comparative Analysis	3
5. Analysis of Waipa Networks' Performance and Comparisons with other Lines Companies	4
6. Ownership Options	7
6.1 Trust Ownership	8
6.2 Distribution of shares to Connected Consumers	10
6.3 Sale of shares to the Public or Institutional Investors	10
6.4 A Customer Co-operative	11
6.5 Conclusion	11
7. Conclusions of the Trustees and Directors	12
8. Public Consultation	12
<b>Appendices</b>	
A Provisions of the Trust Deed	13
B Profitability	18
C Pricing	22
D Security of Supply	25
E Costs	31
F Trustees	34
G Directors	35
H Company Details	36

## 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 Business, Innovation and Employment.
- 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 2011 ownership review the following benefits have been delivered to Connected Consumers.

- Minimised costs without compromising service.
- Provided discounts of \$21.2 million – averaging \$863 for every Network Connection Point.
- 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 \$62 million – averaging \$2,524 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 \$98 million in direct cash benefit. Also the June 2015 Key Research survey revealed overwhelming support (92%) 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 2011, and now five years later the 2016 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.
- 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 55 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.

Being a natural monopoly electricity lines businesses are subject to regulation under Part 4 of the Commerce Act 1986. The Commerce Commission has developed a sophisticated information disclosure regime which is mandatory for the industry. In order to assist in measuring our performance against other lines companies we have used the Commerce Commissions publically available information database extensively. As these results ring-fence the monopoly part of the business the results can be quite different from the Company's SCI projections.

Waipa Networks' success can be demonstrated by:

- Twenty three 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. The June 2015 Key Research survey revealed (76%) of consumers were very satisfied and another (20%) fairly satisfied giving an overall satisfaction rate of (96%); a response to be proud of.

### **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 2015. These tables provide independent benchmarking of Waipa Networks' results and show the financial performance as about 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 Commissions Information disclosure statistics as shown in Appendix C(i).

Appendix C(ii) has been derived from the most recent Ministry of Business, Innovation & Employment'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 currently have the lowest price.

Clearly Waipa Networks is performing exceptionally well in this area, especially while at the same time producing a reasonable 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. Two important measures are SAIDI (the average minutes of lost supply per customer per year) and SAIFI (average number of interruptions per customer per year). Waipa Networks sets itself challenging targets and the results are shown in Appendix D(i).

Appendices D(ii) and (iii) are derived from the Commerce Commission's Information Disclosure Database 2015, 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 significant difference between the Total and Network (Planned and Unplanned) in D(ii) is a reflection of the huge impact loss of supply from Transpower can have on our Connected Consumers. The Company is in the process of spending well over \$20M to provide a second source of supply for Te Awamutu to alleviate this.

The 2015 Key Research survey asked Connected Consumers "How satisfied are you with the delivery of electricity to your property overall?" The results showed that 96% 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, 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 2015 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 78% of customers agreed with the statement (40% 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.

The Commerce Commission's Information Disclosure Database 2015 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 6<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.

Waipa Networks promotes energy efficiency through:

- our website
- advertorials in the local papers
- Measuring and introducing strategies to mitigate our carbon footprint
- Participating in The Healthier Homes Programme in partnership with the Trust and EECA which involved subsidising the insulation of many homes
- Its companywide Environmental Management System
- Energy efficiency education programme delivered to local schools

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 create 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 consumer trust ownership structure, at the time the Trust was established, at previous ownership reviews and in the latest 2015 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.

Waipa Networks has access to a substantial amount of loan finance and this combined with the ability to project finance any new business venture means a need for further equity is unlikely in the near future. This is demonstrated by the recent investment in a second 110kV supply line for Te Awamutu and substantial investment in a fibre optic network (UltraFast Fibre).

*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.
- Reduced exposure to regulatory bodies, for example being exempt from the Commerce Commissions Price Control regime
- 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 Network’s 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 for 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 annual surveys conducted by Key research. The results of these surveys consistently provide overwhelmingly endorsement (92%) 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 2015. Use was also made of Ministry of Business, Innovation and Employment 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 F and G.

The future for electricity networks is becoming more challenging as investment in low carbon technologies increases. Technological advances in the ability to economically generate and store power from renewable sources, as well as the now rapid development of electric vehicles and smart appliances, loom as huge challenges. New investment will be required, existing services will need to be maintained while new services evolve and some existing assets may be stranded. The Trust ownership model will keep abreast of these challenges and maintain the best value for beneficiaries through regular reviews driven by the advantage of having the annual Statement of Corporate Intent process.

Having considered all the options 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 3840**

**Closing date for submissions: 4pm Thursday 30<sup>th</sup> June 2016.**

## Appendix A

### PROVISIONS OF THE 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**

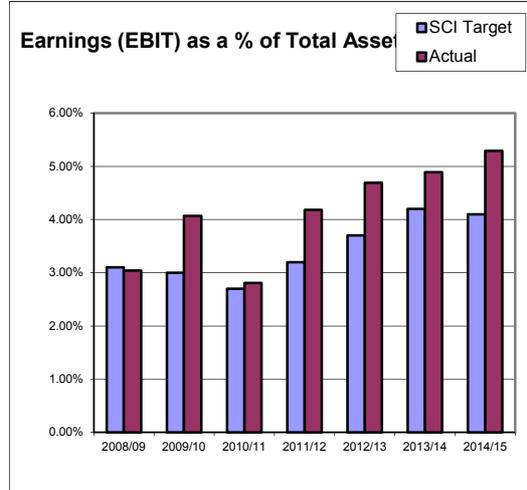
### **PROFITABILITY**

- B (i) Profitability Performance
- B (ii) Regulatory Profit
- B (iii) Regulatory Return on Investment (ROI)

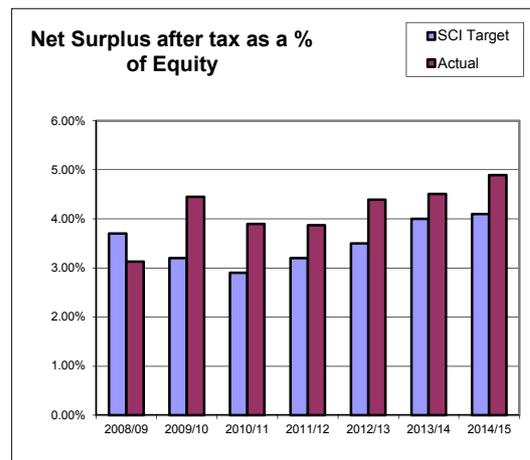
**Profitability Performance measured against the Statement of Corporate Intent (SCI)**

**Financial performance indicators:**

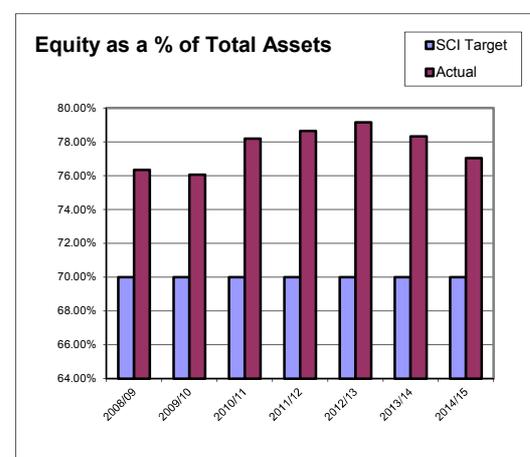
	<b>Profit before interest and tax as a percentage of total assets</b>	
	<b>SCI Target</b>	<b>Actual</b>
2008/09	3.10%	3.04%
2009/10	3.00%	4.07%
2010/11	2.70%	2.81%
2011/12	3.20%	4.18%
2012/13	3.70%	4.69%
2013/14	4.20%	4.89%
2014/15	4.10%	5.29%



	<b>Profit after tax as a percentage of Equity</b>	
	<b>SCI Target</b>	<b>Actual</b>
2008/09	3.70%	3.13%
2009/10	3.20%	4.45%
2010/11	2.90%	3.90%
2011/12	3.20%	3.87%
2012/13	3.50%	4.39%
2013/14	4.00%	4.51%
2014/15	4.10%	4.89%



	<b>Equity as a percentage of total assets</b>	
	<b>SCI Target</b>	<b>Actual</b>
2008/09	70.00%	76.33%
2009/10	70.00%	76.05%
2010/11	70.00%	78.18%
2011/12	70.00%	78.64%
2012/13	70.00%	79.15%
2013/14	70.00%	78.32%
2014/15	70.00%	77.03%



## Regulatory Profit - 2015

	'\$000	As a % of Line	
		Revenue	cents/kWh
Alpine Energy	9,175	17.9%	1.18
Aurora Energy	17,923	20.1%	1.44
Buller Electricity	1,199	15.8%	2.21
Centralines	1,537	12.6%	1.47
Counties Power	7,164	15.5%	1.33
Eastland Network	9,516	28.5%	3.40
Electra	6,582	17.4%	1.64
Electricity Ashburton	3,424	8.5%	0.55
Electricity Invercargill	5,078	25.4%	1.97
Horizon Energy Distribution	5,336	16.8%	1.04
MainPower New Zealand	6,666	12.6%	1.10
Marlborough Lines	4,709	13.6%	1.25
Nelson Electricity	2,545	24.3%	1.82
Network Tasman	1,556	3.7%	0.26
Network Waitaki	2,532	14.9%	0.93
Northpower	9,925	15.7%	1.00
Orion New Zealand	81,317	33.6%	2.60
OtagoNet Joint Venture	9,892	28.2%	2.42
Powerco	90,731	24.7%	2.03
Scanpower	1,358	16.2%	1.77
The Lines Company	8,586	22.3%	2.62
The Power Company	5,348	9.4%	0.76
Top Energy	7,053	18.3%	2.20
Unison Networks	31,577	22.3%	2.03
Vector	139,308	22.3%	1.67
Waipa Networks	3,446	15.0%	0.97
WEL Networks	23,426	24.2%	1.94
Wellington Electricity Ltd	49,398	27.2%	2.11
Westpower	294	1.4%	0.11
Mean	18,848	18.2%	1.58
Median	6,666	17.4%	1.64
Minimum	294	1.4%	0.11
Maximum	139,308	33.6%	3.40

Derived from Commerce Commissions Information Disclosure 2015.

### Regulatory Return on Investment (ROI)

Year - End ROI Excluding Revenue Earned from Financial Incentives and Wash-Ups		
	Vanilla WACC	Post Tax WACC
	2015	2015
Alpine Energy	5.6%	4.8%
Aurora Energy	5.4%	4.6%
Buller Electricity	4.2%	3.4%
Centralines	4.8%	4.0%
Counties Power	6.4%	5.6%
Eastland Network	5.0%	4.2%
Electra	7.2%	6.4%
Electricity Ashburton	6.3%	5.5%
Electricity Invercargill	7.4%	6.6%
Horizon Energy Distribution	5.4%	4.6%
MainPower New Zealand	6.5%	5.7%
Marlborough Lines	2.1%	1.4%
Nelson Electricity	6.0%	5.3%
Network Tasman	5.5%	4.7%
Network Waitaki	4.2%	3.4%
Northpower	5.8%	5.0%
Orion New Zealand	8.7%	7.9%
OtagoNet Joint Venture	6.3%	5.5%
Powerco	6.2%	5.4%
Scanpower	8.0%	7.2%
The Lines Company	4.9%	4.1%
The Power Company	3.9%	3.1%
Top Energy	2.5%	1.7%
Unison Networks	5.9%	5.2%
Vector	5.9%	5.1%
Waipa Networks	5.3%	4.5%
WEL Networks	5.1%	4.3%
Wellington Electricity Ltd	7.3%	6.5%
Westpower	2.0%	1.2%
<b>Mean</b>		
	5.5%	4.7%
<b>Median</b>		
	5.6%	4.8%
<b>Minimum</b>		
	2.0%	1.2%
<b>Maximum</b>		
	8.7%	7.9%

Derived from Commerce Commissions Information Disclosure Database 2015.

## Appendix C

### PRICING

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

## Line Charges

	Overall Average cents/kWh 2015
Alpine Energy Limited	6.58
Aurora Energy	7.16
Buller Electricity	14.02
Centralines Limited	11.62
Counties Power	8.63
Eastland Network	11.91
Electra Limited	9.38
Electricity Ashburton	6.50
Electricity Invercargill	7.75
Horizon Energy Distribution	6.20
Mainpower New Zealand	8.76
Marlborough Lines Limited	9.16
Nelson Electricity Limited	7.48
Network Tasman Limited	7.14
Network Waitaki Limited	6.22
Northpower Limited	6.38
Orion New Zealand	7.73
OtagoNet Joint Venture	8.61
Powerco Limited	8.21
Scanpower Limited	10.98
The Lines Company	11.74
The Power Company	8.07
Top Energy Limited	12.04
Unison Networks	9.11
Vector Lines Limited	7.48
Waipa Networks Limited	6.47
WEL Networks	8.02
Wellington Electricity Limited	7.78
Westpower Limited	7.65
Mean	8.58
Median	8.02
Minimum	6.20
Maximum	14.02

Derived from Commerce Commissions Information Disclosure Database 2015.

**Quarterly Survey of Domestic Electricity Prices - Nominal indicators on  
15 November 2015**

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

(8,000 kWh's pa) cents/kWh  
15/11/2015

Alpine Energy	9.50
Aurora Energy (Central Otago Clyde/Crom)	14.70
Aurora Energy (Dunedin)	8.10
Aurora Energy (Queenstown)	11.00
Buller Electricity	16.50
Centralines	17.50
Counties Power	12.00
Eastland Network (Eastland)	14.50
Eastland Network (Wairoa)	14.50
Electra	10.80
Electricity Ashburton	7.90
Electricity Invercargill	9.90
Horizon Energy Distribution	12.30
MainPower	11.70
MainPower (Kaiapoi)	9.50
Marlborough Lines	14.10
Nelson Electricity	9.70
Network Tasman	9.00
Network Waitaki	9.40
Northpower	11.30
Orion NZ	11.00
OtagoNet	19.60
Powerco (Hawera)	13.80
Powerco (Manawatu)	11.30
Powerco (New Plymouth)	11.30
Powerco (Tauranga)	11.70
Powerco (Thames Valley)	12.80
Powerco (Wairarapa)	13.80
Powerco (Whanganui)	11.30
Scanpower	13.70
The Lines Company (King Country)	12.90
The Lines Company (Waitomo)	13.60
The Power Company	12.50
Top Energy	19.10
Unison (Hawke's Bay)	14.10
Unison (Rotorua)	13.60
Unison (Taupo)	13.60
Vector (Waitemata)	11.50
Vector	11.50
Waipa Networks	7.80
WEL Networks	13.20
Wellington Electricity Lines (North)	10.80
Wellington Electricity Lines (South)	10.80
Westpower	12.60
WEL Networks	13.20
Westpower	12.60
<b>Mean</b>	<b>12.34</b>
<b>Median</b>	<b>12.15</b>
<b>Minimum</b>	<b>7.80</b>
<b>Maximum</b>	<b>19.60</b>

Derived from Information from the Ministry of Business, Innovation & Employment.

## Appendix D

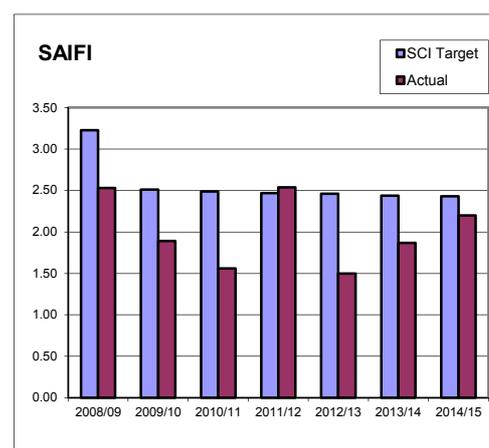
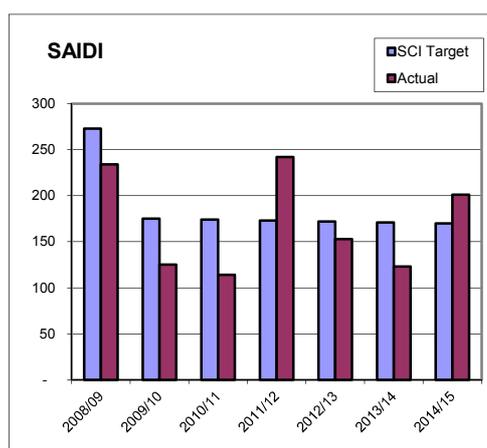
### SECURITY OF SUPPLY

- 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:

	SAIDI (Minutes per customer)		SAIFI (Interruptions per customer)	
	SCI Target	Actual	SCI Target	Actual
2008/09	273	234	3.23	2.53
2009/10	175	125	2.51	1.89
2010/11	174	114	2.49	1.56
2011/12	173	242	2.47	2.54
2012/13	172	153	2.46	1.50
2013/14	171	123	2.44	1.87
2014/15	170	201	2.43	2.20



SAIDI = System Average Interruption Duration Index

(Average number of minutes of non-supply per customer per year in minutes.)

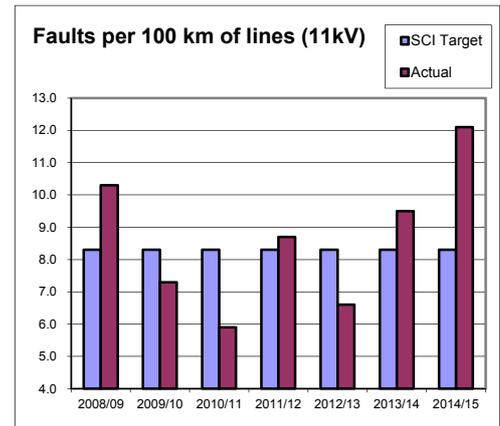
SAIFI = System Average Interruption Frequency Index

(Average number of interruptions per customer per year.)

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

**Energy Reliability performance measures:**

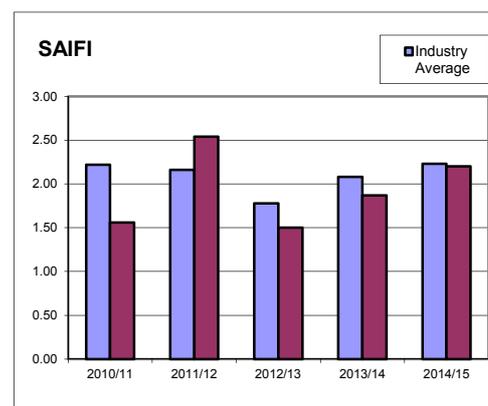
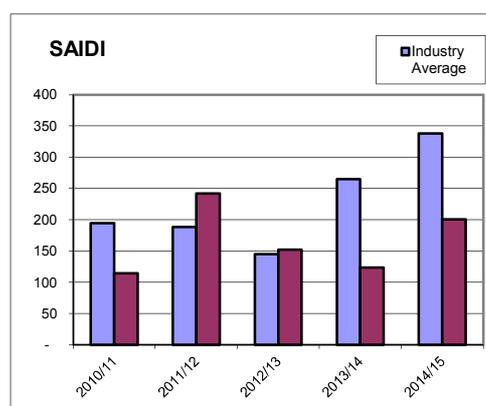
	<b>Faults per 100 km lines (11kV)</b>	
	<b>SCI Target</b>	<b>Actual</b>
2008/09	8.3	10.3
2009/10	8.3	7.3
2010/11	8.3	5.9
2011/12	8.3	8.7
2012/13	8.3	6.6
2013/14	8.3	9.5
2014/15	8.3	12.1



## Systems Reliability Compared to the Industry Average

### Energy Reliability Performance Measures: Network Planned and Unplanned

	SAIDI (Minutes per customer)		SAIFI (Interruptions per customer)	
	Industry Average	Waipa	Industry Average	Waipa
2010/11	194.6	114.3	2.22	1.56
2011/12	188.4	241.9	2.16	2.54
2012/13	144.6	152.1	1.78	1.50
2013/14	264.8	123.4	2.08	1.87
2014/15	338.0	200.6	2.23	2.20



Derived from Commerce Commissions Information Disclosure Database 2015.

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

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

## System Reliability Indices - 2015

	Total		Network Planned and Unplanned	
	SAIDI	SAIFI	SAIDI	SAIFI
Alpine Energy	161.0	1.4	140.3	1.2
Aurora Energy	130.0	1.4	129.8	1.4
Buller Electricity	2,746.6	3.1	2,746.6	3.1
Centralines	141.4	2.4	141.4	2.4
Counties Power	120.1	2.6	120.1	2.6
Eastland Network	368.7	5.0	255.8	4.0
Electra	158.8	2.6	139.3	2.2
Electricity Ashburton	198.2	2.1	198.2	2.1
Electricity Invercargill	41.3	0.8	41.3	0.8
Horizon Energy Distribution	390.7	3.3	172.9	2.0
MainPower New Zealand	191.7	1.5	191.4	1.5
Marlborough Lines	129.9	1.4	129.9	1.4
Nelson Electricity	19.9	1.6	19.9	1.6
Network Tasman	210.3	1.8	180.2	1.4
Network Waitaki	51.1	1.1	50.8	1.1
Northpower	379.6	3.6	379.6	3.6
Orion New Zealand	126.3	1.2	126.1	1.2
OtagoNet Joint Venture	357.7	3.4	357.7	3.4
Powerco	322.1	2.5	277.8	2.3
Scanpower	68.2	0.9	68.2	0.9
The Lines Company	299.9	4.5	279.0	4.1
The Power Company	295.5	3.5	259.6	3.0
Top Energy	1,887.8	7.4	1,837.8	6.4
Unison Networks	121.3	2.0	120.4	2.0
Vector	496.2	1.9	496.2	1.9
Waipa Networks	495.2	3.4	200.6	2.2
WEL Networks	106.8	1.5	105.1	1.5
Wellington Electricity Ltd	40.1	0.7	38.8	0.6
Westpower	600.4	3.3	600.4	3.3
Mean	367.5	2.5	338.1	2.2
Median	191.7	2.1	172.9	2.0
Minimum	19.9	0.7	19.9	0.6
Maximum	2,746.6	7.4	2,746.6	6.4

Derived from Commerce Commissions Information Disclosure Database 2015.

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 - 2015**

	Number of Interruptions	Faults per 100 circuit km
Alpine Energy	400	9.6
Aurora Energy	805	13.8
Buller Electricity	96	15.0
Centralines	222	11.4
Counties Power	273	8.7
Eastland Network	542	13.7
Electra	246	10.9
Electricity Ashburton	456	15.1
Electricity Invercargill	27	4.1
Horizon Energy Distribution	211	8.5
MainPower New Zealand	871	17.8
Marlborough Lines	534	15.8
Nelson Electricity	27	9.3
Network Tasman	308	8.6
Network Waitaki	292	15.1
Northpower	865	14.7
Orion New Zealand	1,491	13.5
OtagoNet Joint Venture	649	14.0
Powerco	4,571	16.4
Scanpower	190	18.0
The Lines Company	1,436	33.2
The Power Company	1,358	15.4
Top Energy	574	14.4
Unison Networks	937	10.3
Vector	2,780	15.3
Waipa Networks	255	12.0
WEL Networks	1,138	21.5
Wellington Electricity Ltd	409	8.7
Westpower	310	13.7
<b>Mean</b>	<b>768</b>	<b>13.8</b>
<b>Median</b>	<b>456</b>	<b>13.8</b>
<b>Minimum</b>	<b>27</b>	<b>4.1</b>
<b>Maximum</b>	<b>4,571</b>	<b>33.2</b>

Derived from Commerce Commissions Information Disclosure Database 2015.

## Appendix E

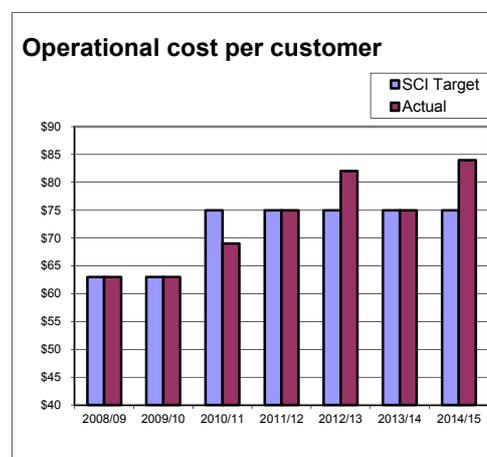
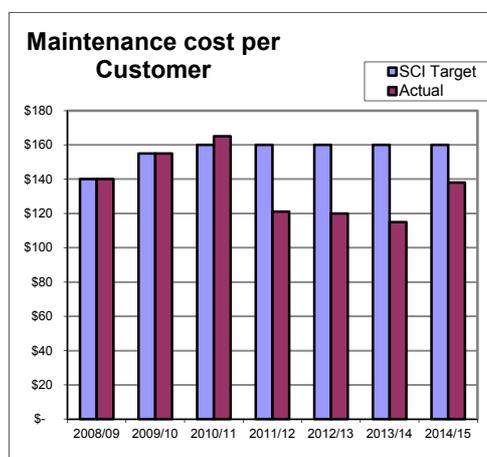
### COSTS

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

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

### Cost performance measures:

	Maintenance costs per electricity customer		Operational expenditure per electricity customer	
	SCI Target	Actual	SCI Target	Actual
2008/09	\$140	\$140	\$63	\$63
2009/10	\$155	\$155	\$63	\$63
2010/11	\$160	\$165	\$75	\$69
2011/12	\$ 160	\$121	\$75	\$75
2012/13	\$ 160	\$120	\$75	\$82
2013/14	\$160	\$115	\$75	\$75
2014/15	\$ 160	\$ 138	\$75	\$84



<b>Total Cost per Customer - 2015</b>	
	<b>2015</b>
Alpine Energy	436
Aurora Energy	278
Buller Electricity	673
Centralines	420
Counties Power	293
Eastland Network	309
Electra	268
Electricity Ashburton	495
Electricity Invercargill	240
Horizon Energy Distribution	322
MainPower New Zealand	285
Marlborough Lines	506
Nelson Electricity	207
Network Tasman	258
Network Waitaki	362
Northpower	278
Orion New Zealand	267
OtagoNet Joint Venture	542
Powerco	200
Scanpower	239
The Lines Company	427
The Power Company	411
Top Energy	424
Unison Networks	318
Vector	208
Waipa Networks	213
WEL Networks	206
Wellington Electricity Limited	154
Westpower	718
Mean	343
Median	293
Minimum	154
Maximum	718

Derived from Commerce Commissions Information Disclosure Database 2015.

**WAIPA NETWORKS**

*Trust*



**WAIPA NETWORKS TRUST**

**TRUSTEES**

Craig Sanders	<b>CHAIRMAN</b>
Andrew Bateman	<b>DEPUTY CHAIRMAN</b>
Judy Bannon	<b>TRUSTEE</b>
Carl Rist JP	<b>TRUSTEE</b>
Barbara Taranaki QSM JP (Retired)	<b>TRUSTEE</b>
Rachel Tremewan	<b>TRUSTEE</b>



**WAIPA NETWORKS LTD**

**DIRECTORS**

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



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

**Solicitors**

Harkness Henry and Co  
Private Bag 3077  
HAMILTON