

# Westpower Ownership Review

July 2021



Summary Report for  
Public Inspection





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## Summary Report for Public Inspection

Greg Topp  
Chairman  
West Coast Electric Power Trust  
PO Box 4  
Reefton 7851

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21 July 2021

### Westpower Ownership Review

Dear Greg,

We are pleased to present our summary report which has been prepared to assist the West Coast Electric Power Trust with the five yearly ownership review as required under the Trust Deed.

This report has been prepared in accordance with our letter of engagement dated 24 March 2021 and is to be read in conjunction with the terms and conditions set out within that document, and the restrictions set out in Appendix A of this report.

This summary report can be made available for public inspection in accordance with the requirements of the West Coast Electric Power Trust Deed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lynne Taylor'.

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A handwritten signature in black ink, appearing to read 'Craig Rice'.

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# Introduction

## Introduction and purpose

This report has been prepared for the West Coast Electric Power Trust (the Trust) to support the periodic review of the Trust's ownership of Westpower Limited (Westpower).

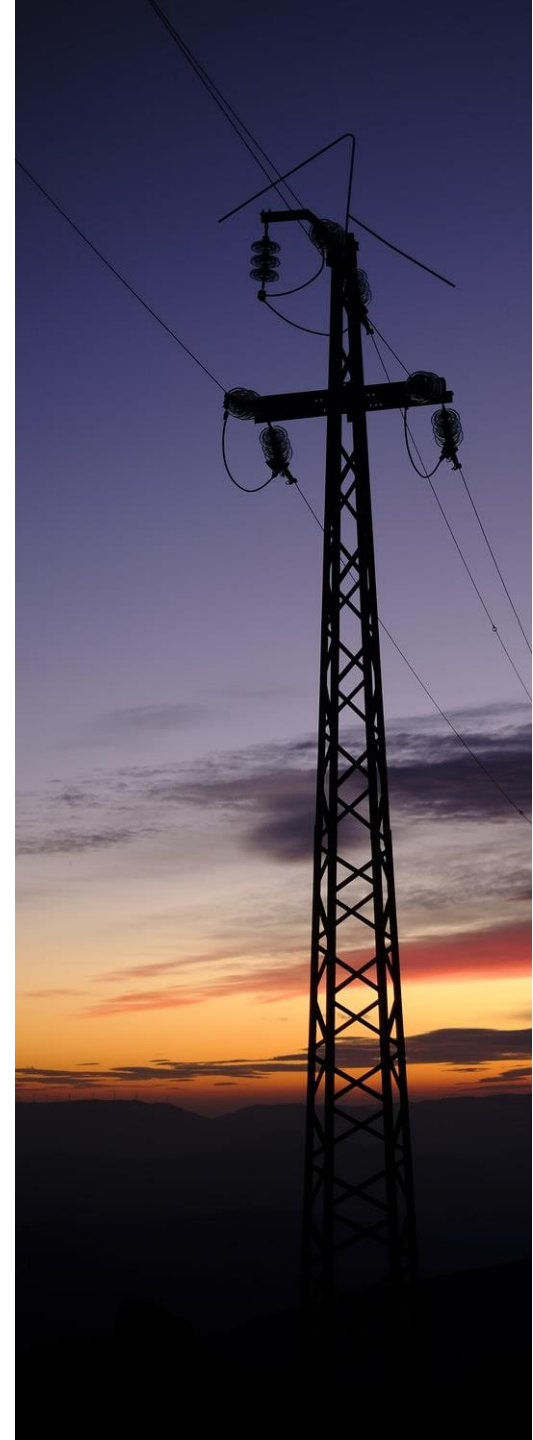
Consistent with Clause 4.1 of the Trust Deed, the review must include:

- an analysis of the performance of the Trust to the date of the report, together with a discussion of the advantages and disadvantages of Trust ownership
- an analysis of alternative ownership options, including without limitation, a share distribution to Consumers or Electors, a sale of shares in the Company to the public, a sale of shares in the Company to institutional investors and retention by the Trust
- a comparison of the performance by the Company with the performance of other similar energy companies covered by the Energy Companies Act 1992.

This report presents a summary of our findings comprising our:

1. review of Westpower's performance over the last five years (the review period)
2. review of Westpower's electricity distribution business (EDB) performance against comparable companies
3. review of the Trust's performance over the review period
4. analysis of ownership options available to the Trust and its beneficiaries, including the current trust ownership structure.

In conducting this review, PwC has relied on information supplied by Westpower, published information disclosure (ID) documents for EDBs, PwC databases and interviews with members of the Trust, the Chairman of the Board of Directors and the Chief Executive of the Company.



# Summary of findings

## Group overview

### Westpower

Westpower is an electricity distribution company and parent company for ElectroNet Services Ltd (ElectroNet) and Amethyst Hydro Limited (Amethyst Hydro).

Westpower is responsible for transporting electricity from the national grid to consumers throughout the West Coast. ElectroNet operates electrical contracting and consultancy businesses servicing Westpower and external customers located in the North and South Islands. Amethyst Hydro owns a 7.7 MW hydro power station on the Amethyst River.

Westpower's electricity distribution network covers a geographic area of over 2000kms. The network has performed well during the review period, but was adversely impacted by cyclones in FY18. Over the past five years, Westpower has been impacted by major industrial closures on the West Coast which have led to some dedicated assets becoming stranded.

Westpower installed the first electric vehicle fast charger on the West Coast and provides sponsorship of the West Coast Air Rescue Helicopter service.

In addition to its annual line charge discounts, the Company agreed to a special discount of \$5m to support the Trust's beneficiaries during the COVID-19 pandemic.

### ElectroNet

ElectroNet has diversified and grown considerably over the review period, expanding operations geographically and the scale and complexity of the projects delivered for external customers.

The investment in capability at ElectroNet Technology has enabled the development of innovative new products and technologies to help solve problems on traditional network infrastructure.

The Board together with management have implemented a comprehensive Health and Safety Strategic Plan to strengthen safety systems and outcomes across the organisation.

### Amethyst Hydro

Amethyst Hydro's generation plant availability was well above the 95% target in all years of the review period.

### Waitaha Hydro Scheme

In July 2014, Westpower submitted an application for concessions from the Minister of Conservation to enable a 16-20 MW hydro scheme on the Waitaha river to progress. In FY20, the Minister for the Environment declined the application.

## Financial performance

Westpower Group revenue, operating earnings and net profit after tax have grown over the five-year review period. The proportion of total revenues provided by the network business has declined over the review period as ElectroNet's consulting and contracting income has grown. The Company has built-up cash reserves of over \$25m during the period.

The value of the electricity distribution asset base has reduced over the review period. This is because depreciation has exceeded the value of new assets as Westpower has focussed predominantly on maintenance of the existing assets due to low demand growth on the West Coast.

# Summary of findings

## Comparative performance

### Electricity distribution business

We have benchmarked Westpower's electricity network business performance against eight other EDBs, and the industry average using regulatory reporting information. We have observed that, over the five year review period, relative to the peer group and industry averages:

- Westpower's returns have been lower, due to lower unit prices (after line charge discounts are deducted) and higher maintenance expenditure
- Unit prices have remained relatively flat since FY17
- Network related opex has been considerably higher (per connection), but network capex has been considerably lower
- Corporate, system planning and operations opex has been slightly below the peer group average since FY16
- Network reliability has been better, except in years with major storm events located on the West Coast.

### WCEPT Trust performance

WCEPT holds the shares in the Westpower Group. The Trust Deed ensures that Westpower's consumers (income beneficiaries) and local electors (capital beneficiaries) benefit from ownership of the Company. WCEPT's primary objective is to represent the consumer beneficiaries.

The Trust has a strong focus on the needs of the West Coast communities and the benefits that Westpower's activities can deliver to those communities. WCEPT's Trustees have a good understanding of Westpower's operations, and are active in agreeing the annual statement of intent with the Company. The Trust also appoints the Directors of the Company and monitors the performance of the Director group.

WCEPT's revenue is made up primarily of dividends received from Westpower. On average, during the review period, revenues and costs were largely aligned.

The Trust has no significant assets other than its investment in Westpower, holding only a minimal cash balance.

The Trust did not make any distributions directly to beneficiaries over the review period as benefits were passed on by Westpower in the form of line charge discounts. There have been regular discounts for consumer beneficiaries over the period, with payments of up to \$2m - \$3m in each year. A \$5m discount was paid after the end of the 2020 financial year.

We have benchmarked WCEPT against other selected energy consumer trusts for FY20. WCEPT's cost structure is relatively efficient compared to other energy trusts.

## Outlook for the Company

There is increasing attention on the capability of the electricity sector to manage growth, given New Zealand's climate change policy goals, which will only be achieved with increased electrification of transport and industrial processes. Significantly more renewable electricity generation will be required, including small scale distributed generation located within distribution networks.

New technologies such as solar photovoltaics, battery storage, electric vehicles, smart metering and energy automation management systems are expected to have a significant and enduring impact on the energy market.

# Summary of findings

Accordingly, the energy system is rapidly evolving to adapt to distributed and digital micro-networks that more directly engage customers. Electricity distributors are critical to enabling these new technologies to be adopted and to ensure customers are able to benefit from them.

Distribution networks provide the local market place for these activities, which require distributors to manage more complex two-way electrical loads. This provides opportunities for Westpower to achieve its growth aspirations, and enhance the well being of the local community.

ElectroNet's contracting, technology and consulting services are well aligned to these opportunities, providing a strong base for growing the business.

## Strategic direction

Since the previous ownership review, the Westpower Group through the ElectroNet companies, has continued to diversify and grow reducing reliance on the local core distribution network business, with expanded operations outside of the West Coast region.

These achievements are reflected in the current strategic initiatives, which support the direction of the Group and are relevant to evaluating future ownership options:

- Ensure that the core business of electricity distribution is sustained
- Grow the wider business.

## Ownership options

Ownership options available to the Trust range from continued 100% consumer trust ownership through to full distribution of shares. We consider the advantages and disadvantages to beneficiaries of consumer trust ownership of Westpower's shares, relative to the distribution or sale of these shares

Ownership option	Description
100% trust ownership of shares (status quo)	Trust ownership is common practice with over 70% of EDBs in New Zealand operating under it to some degree We also consider variants to the current consumer trust option
Distribution to beneficiaries or sale to the public or external investors of 24.9% or 49.9% of shares	Distribution or sale of 24.9% allows the Trust to retain control over Westpower's constitution Distribution or sale of 49.9% allows the Trust to retain control
Distribution of 100% of shares to beneficiaries	Where a 100% share distribution occurs, shares are typically on-sold by beneficiaries within a short period, making it possible for an interested party to gain majority control
Sale of 100% of shares to the public or external investors	A sale of 100% of shares would enable the Trust to test the market for interest in the Company and pass the proceeds to beneficiaries

# Summary of findings

## Status quo – Trust ownership

Operating under 100% trust ownership, Westpower has successfully expanded its operations beyond core business by further developing its electrical contracting and consultancy businesses during the review period. This growth was not achievable within the core business and current and future Trust beneficiaries have been served well by the Company's execution of its strategy to focus on the wider business opportunities in the electricity sector.

The status quo is consistent with meeting the needs of current and future consumer beneficiaries. It is a relatively low cost ownership model, which provides for the local interests of consumers to be reflected in the Company's performance and direction.

Operating under 100% trust ownership, Westpower has a substantial degree of flexibility in responding to new industry opportunities and meeting changing customer needs.

Direct alignment of interests between beneficiaries and electricity consumers through a consumer trust structure means both financial and non-financial considerations such as health and safety, network performance and maintenance of network assets can be balanced.

## Conclusion

Operating under the trust model, Westpower has performed strongly over the review period, both in relation to financial and non-financial factors.

This has included:

- improved profitability despite losing significant network customers over the review period
- distributing \$12.9m of line charge discounts to consumer beneficiaries, with an additional \$5m distributed in 2020

- improving health and safety processes and outcomes
- maintaining good network reliability performance levels
- development of innovative technologies with potential for wider application across the electricity sector
- accumulating cash reserves of more than \$25m.

The Company can be expected to continue to perform if the Trust:

- maintains clear expectations for the Company which promote a strong network and balance financial and non-financial considerations
- encourages investment and initiatives which continue to provide the Company access to technical and operational expertise and capabilities while delivering financial growth
- affords the Company flexibility in pursuing new opportunities in response to industry evolution and changing consumer needs
- continues to promote a culture of innovation and operational excellence
- advocates for the interests of current and future beneficiaries.

# Appendix A - Restrictions

This report has been prepared to assist the West Coast Electric Power Trust to support the Trust's requirements to carry out a periodic review of the Trust's ownership of Westpower Limited. This report has been prepared solely for this purpose and should not be relied upon for any other purpose. We accept no liability to any party should it used for any purpose other than that for which it was prepared.

This report can be made available for public inspection in accordance with the requirements of the West Coast Electric Power Trust Deed. Apart from this noted exception, our report is not intended for general circulation, distribution or publication nor is it to be reproduced or used for any purpose without our written permission in each specific instance.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in this respect. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report. We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our engagement letter dated 24 March 2021.