
West Coast Electric Power Trust

Ownership review
June 2016

*Ownership review of
West Coast Electric
Power Trust*

Final report





Mr Ian Hustwick
Chairman
West Coast Electric Power Trust
Sunny Bight Road
Lake Kaniere
Hokitika

16 June 2016

Ownership review – final report

Dear Ian,

In accordance with the terms of our engagement letter dated 21 January 2016, we attach our final report regarding the ownership review of West Coast Electric Power Trust.

Our key findings are contained in the Executive Summary of the report.

If you have any queries please do not hesitate to contact us.

Yours sincerely

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

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1. Introduction

West Coast Electric Power Trust (“WCEPT” or “the Trust”) is required to carry out an ownership review every five years in respect of Westpower Limited (“Westpower” or “the Company”), the company that it holds in trust on behalf of its beneficiaries. The review must comply with Clause 4 of the WCEPT Trust Deed and include:

- Performance reviews of both Westpower and WCEPT
- A discussion of the advantages and disadvantages of Trust ownership
- An analysis of alternative ownership options
- The conclusion of the Trustees as to the most appropriate form of ownership.

PricewaterhouseCoopers (“PwC”) has been engaged to carry out the performance reviews and analysis of ownership options, including the advantages and disadvantages of Trust ownership, on behalf of WCEPT.

In conducting this review, PwC has relied on financial information supplied by WCEPT and Westpower, published information disclosure documents for electricity distribution companies including Westpower, PwC databases, interviews with WCEPT Trustees and interviews with the Chairman and CEO of Westpower.

This report has been structured into seven parts as follows:

1. Review of WCEPT’s performance over the last five years
2. Financial review of the performance of the Westpower Group
3. Performance review of Westpower’s electricity distribution (‘network’) business
4. Performance review of Westpower’s contracting and consulting business, ElectroNet Services Limited (“ElectroNet”)
5. Performance review of Westpower’s generation activities, including Amethyst Hydro Limited (“AHL”)
6. Analysis of ownership options available to WCEPT and its beneficiaries, including the current Trust ownership structure
7. Conclusions.

This report is subject to the Restrictions included in Appendix A.

2. Executive summary

2.1. Trust performance

Based on the interviews we have carried out with Trustees and Westpower's Chair and CEO, the Trustees have a good understanding of Westpower's operations. They recognise the diversification strategy of the Company, as it builds generation capacity and continues to supplement the distribution business through its contracting and consulting businesses. The relationship between Trustees is strong, and the Trustees have a high degree of confidence in the governance and management of the Company.

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. The Trust understands its role as the consumer and shareholder representative. It also recognises the difference between its role and the governance role of the board, and the role of management.

There have been regular distributions to consumers over the period, with sizeable discounts of just under \$1m to just under \$2m being provided in each year of the review period. We understand that in 2016 the distribution increased to be in the region of \$3m.

WCEPT Trustees' remuneration is amongst the lowest of the Trusts for which data is available. WCEPT's expenses are relatively high per customer but this reflects the relatively small size of Westpower's network. There was an increase in expenses in 2012 due in part to additional audit costs, which led to a loss in that year.

2.2. Westpower (group) performance

Over the last five years Westpower has seen significant growth in its contracting business, which now consistently provides more than 50% of group revenues. It has also commissioned a new hydro generation plant and is considering further investments in generation on the West Coast.

Prior to and during the review period Westpower has seen the exit of several large customers, reflecting challenging economic conditions for the mining industry. This has resulted in restricted growth for the network business and limited need for major capital investment in the network. The overall share of Group revenues provided by the network business is declining.

Overall Group profitability has generally improved but with some fluctuations that reflect the year-on-year variability that is expected within the contracting sector.

Total assets have grown by approximately 6% over the review period. Total liabilities have remained relatively flat, but there has been a shift in the balance of debt, with Westpower paying down debt for the network business and taking on longer-term debt related to the Amethyst Hydro investment.

The financial position demonstrates a healthy proportion of equity to total assets and significant borrowing headroom to fund new investments, such as the proposed new generation scheme at Waitaha.

The Group and its individual businesses have met most of the SCI targets over the review period. A lost-time injury frequency rate target of zero continues to be a challenging target. Westpower has successfully met targets relating to environmental incidents, expenditure ratios, contracting revenues and the proportion of shareholder funds to total assets. However, it has generally not met ratios relating to the Group's operating surplus. We understand that where targets have not been met, this tends to reflect aggressive target setting alongside recognised fluctuations in revenues within the contracting business.

2.3. Network performance benchmarking

For the purposes of this review we have grouped Westpower with comparable EDBs which are characterised as small networks with modest urban hubs which service significant rural and remote rural areas. Westpower lies around the middle of the peer group in terms of the number of connections and in terms of connection density.

Overall Westpower performs well relative to its peer group in most areas we have considered. Where results appear less favourable there is generally a sound rationale for the outcomes we have identified. Westpower is currently a network experiencing low growth but which is seeking to improve reliability of supply while keeping prices low for its customer base.

Westpower's reliability is generally unfavourable compared to the peer group in 2015, reflecting the impact of the major storm event in that year. However, in 2014 Westpower's reliability is generally better than that of the peer group and Westpower's long-term SAIDI seems to be improving. Further improvements should be expected as a result of recent expenditures aimed at improving reliability.

Westpower's network and network support opex is relatively high compared to the peer group, but its business support opex is relatively low. The low business support opex is a good outcome as Westpower's small size means it will have less scope to achieve economies of scale than other networks. Westpower also has a current focus on finding operating cost efficiencies.

Westpower's capex is currently low and notably lower than at the time of the last review, reflecting the exit of some large customers and modest current growth on the network. Westpower's capex is mainly focused on asset replacement and renewal.

Westpower compares well to its peer group in terms of price, which it has kept low. This has driven low profitability metrics, particularly when distributions to consumers are taken into account, but this reflects decisions regarding the relative merits of prices to customers and distributions to shareholders (who are the broadly the same people). Westpower's return on investment has consistently been lower than the Commerce Commission's information disclosure benchmark.

2.4. ElectroNet performance

The ElectroNet group of companies is 100% owned by Westpower. They include ElectroNet Services Limited and its two subsidiaries Mitton ElectroNet Limited and ElectroNet Transmission Limited.

Mitton ElectroNet Limited was established in April 2007 following the acquisition of Mitton Consulting Limited. ElectroNet Transmission Limited was established in April 2008 following the acquisition of ABB New Zealand's West Coast, Nelson and Marlborough businesses. These two acquisitions strengthened and diversified the company's operation both geographically and operationally. Since then ElectroNet has continued to grow and now has a new office in Christchurch and provides services in Australia and the Pacific Islands and also to Chorus in New Zealand.

Overall, ElectroNet is highly profitable and earnings have increased steadily over the last five years, reflecting growing demand for services. It now employs approximately 260 staff.

Continued growth opportunities exist for ElectroNet group. These include supporting the capital investment programmes of Transpower and other EDBs and the ongoing deployment of fibre by Chorus.

2.5. Generation performance

AHL has only been operating since June 2013 so there is limited information on which to assess its performance.

AHL has achieved its target relative to generation availability but has not met its target relative to generation capacity in 2015.

The current Electricity Authority proposal to remove ACOT payments for distributed generators in most circumstances is likely to have a negative effect on AHL's profitability.

Westpower is in the process of developing a new hydro investment at Waitaha. This would be considerably larger than AHL and may significantly increase the value of assets on Westpower's balance sheet. There may also be opportunities to consider other generation investments.

2.6. Ownership structure

The consumer trust ownership model is common in New Zealand. Of the 29 EDBs, 21 include some component of trust ownership. There are a number of different ownership options available including the existing 100% Trust ownership model, partial divestment or dilution options, and full divestment.

The key advantages of retaining 100% WCEPT ownership are the ability for the Trust to influence the financial and non financial performance of Westpower, the simplicity of the structure and the ability to act in the role of custodian for existing and future generations of consumers. There appears to be a real benefit to Trust ownership in achieving these objectives.

Limited access to external expertise is a key limiting factor of the trust model. The effectiveness of the model is also dependent on attracting sufficient candidates with appropriate expertise to represent the beneficiaries and fulfil their governance responsibilities.

Our performance benchmarking indicates that Westpower is performing well relative to its Peers in most areas, and there is no evidence that Trust ownership has had a negative impact on the Company's operating and financial efficiency, or is likely to in the future, as long as the Trust maintains a keen interest in Company matters.

The existing Trust structure has served Westpower well to date. At some point in the future this structure could impose limitations on Westpower's ability to grow. This is now more likely than in the past as the Company will need to increase borrowing if it chooses to invest in the Waitaha hydro scheme or other generation activities. As the Company grows at some point it may be unable to take advantage of future opportunities for growth without considering alternative ownership structures or divesting some of the existing non-core assets.

2.7. Conclusions

Overall there are a broad range of factors to consider when deciding on the best ownership model for Westpower. Trust ownership is the predominant model for EDBs in New Zealand. The model is strongly supported by the current Trustees and also by the Company, who view local ownership and control as having key strategic value for the region as it:

- allows the Company to focus on performance and growth;
- enables the benefit of consumer ownership to be passed directly to consumers via lower lines charges, because the Trust is willing to target lower returns;
- ensures the presence of a high value industry and employer in the region; and
- delivers a sense of pride for the community.

A key advantage of other ownership models is the potential to provide additional capital to support growth and investment. While this is acknowledged by the Trust and the Company, the current focus of the strategy is to grow revenue by extending into areas that are naturally complemented by their existing activities and skill base. This strategy is considered prudent and is able to be facilitated within the confines of the current ownership model. While the question of the appropriate ownership model is a matter for the Trust and circumstances change over time, currently we see no compelling reason to change from the current model.

3. WCEPT Performance

3.1. Overview

WCEPT was created as a vehicle to hold the shares for Westpower and to ensure that Westpower's consumers (income beneficiaries) and local electors (capital beneficiaries) benefited from ownership of the Company. WCEPT's primary objective is to represent the beneficiaries by mentoring, encouraging and facilitating the Company in meeting its objective of being a successful business, and to distribute to consumers the income benefits of ownership of shares in the Company or any other company (Clause 3.8). To fulfil its objectives, WCEPT negotiates with Westpower's Board of Directors the targets and policies contained in the Statement of Corporate Intent ("SCI") to ensure that consumer interests are protected in both operational and financial aspects of the Company's performance.

WCEPT's chair, Ian Hustwick, was appointed in 2011 and held that position at the time of the last review. Bryce Thomson has recently joined the Trust, being elected in March 2016. Westpower's directors are unchanged since the last review.

The Trustees have a good understanding of Westpower's operations. They recognise the diversification strategy of the Company, as it builds generation capacity and continues to supplement the distribution business through its contracting and consulting businesses. There is a clear understanding of their role as consumer and shareholder representatives, the board's governance role, and the role of management. The relationship between Trustees is strong, and the Trustees have a high degree of confidence in the governance and management of the Company. 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.

The Trustees have ensured elections are held once every two years with elections in 2014 and 2016. WCEPT's funds and expenses have been managed effectively. There have been regular distributions to consumers over the period, with payments of up to \$1m - \$2m in each year of the review period.

3.2. Financial performance

The figure below shows the financial position of WCEPT as at 31 March over the five year review period.

WCEPT - Statement of Financial Performance 2011-2015

West coast electric power trust For the year ended 31 March (\$000)	2011	2012	2013	2014	2015
Statement of financial performance					
Revenue	158	156	156	157	156
Rental and sundry income	2	-	-	1	-
Dividends from subsidiaries	156	156	156	156	156
Expenses	116	206	123	154	141
Trustees Honoraria	60	84	74	74	88
Audit of financial statements	7	14	7	7	7
Other audit services	-	32	-	-	-
Other expenses	49	76	42	73	46
Operating profit / (loss)	42	(50)	33	3	15
Net finance cost	24	13	4	5	6
Finance income	24	13	4	5	6
Finance expenses	-	-	-	-	-
Profit / (loss) before tax	66	(37)	37	8	21
Tax	-	-	-	-	-
Profit / (loss) after tax	66	(37)	37	8	21
Statement of changes in equity					
Equity at start of the year	31,181	31,247	31,210	31,247	31,255
Total comprehensive income	66	(37)	37	8	21
Equity at end of the year	31,247	31,210	31,247	31,255	31,276

Source: Annual reports

WCEPT's revenue is derived from dividends from Westpower, as well as interest income. Dividend income has stayed fixed in nominal terms throughout the period. WCEPT does not pay tax due to the majority of its income being represented by imputed dividends.

Expenditure was high (and the Trust made a loss) in 2012. We understand this was partly due to high audit costs associated with a change in auditor. There has been a trend of increasing expenditure over the period.

3.3. Trust benchmarking

We have benchmarked WCEPT against other selected energy consumer trusts in terms of cost efficiency in the 2015 year. We note that the consumer trusts selected for this benchmarking are not the same trusts represented by the EDBs selected for benchmarking in Section 4.5. This reflects the data that is available: the shareholders of EDBs are not all Trusts and, for the remainder that are trust owned, not all of the respective trusts disclose separate financial information. In order to benchmark WCEPT, we have assessed all energy consumer trusts that disclose meaningful information.

Trust expenses have been measured relative to the number of network customers, as measured by installation control points (ICPs), and as a percentage of Trust assets and revenue. The Trustee fees are measured as average fees per Trustee, and Trustee fees per ICP.

Benchmarking of Trust Performance (2015)

Consumer trust	No. of ICPs	Fees / trustee	Trustee fees / ICP	Expenses / ICP	Expenses / assets
Auckland Energy Consumer Trust	540,539	68,600	0.63	7.56	1.1%
Counties Power Consumer Trust	38,856	19,742	2.54	6.28	0.7%
Electra Trust	39,665	14,000	2.12	7.74	1.7%
Hawkes Bay Power Consumer Trust	110,576	27,280	1.23	7.65	1.3%
Northpower Electric Power Trust	56,485	31,286	3.88	5.49	0.8%
WEL Energy Trust	86,738	31,143	2.51	11.33	0.7%
West Coast Electric Power Trust	13,316	14,667	6.61	10.59	0.5%
Average	145,477	32,008	2.15	7.68	1.0%

Source: Annual reports

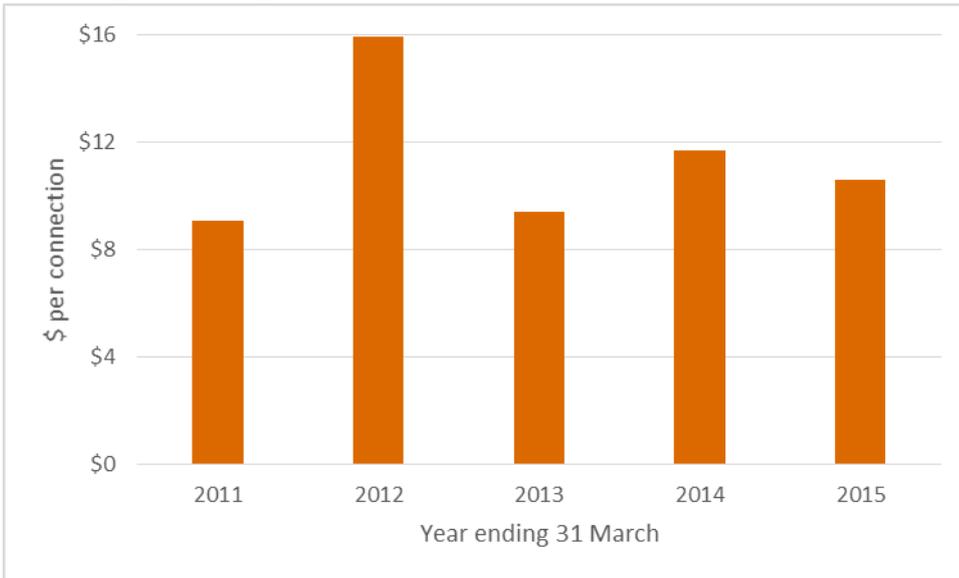
We note that there is significant variation between the consumer trusts due to their individual circumstances and investment portfolios. In addition, the number of ICPs vary widely, with WCEPT being by far the smallest in the sample and thus having least scope to achieve economies of scale.

Across each of the benchmarks set out in the table above, WCEPT:

- has the second lowest fees per Trustee
- the highest Trustee fees per ICP, which is to be expected given the small number of ICPs represented by WCEPT
- high expenses/ICP, reflecting the relatively small size of the network
- low expenses/assets, reflecting the Trust's relatively small asset base.

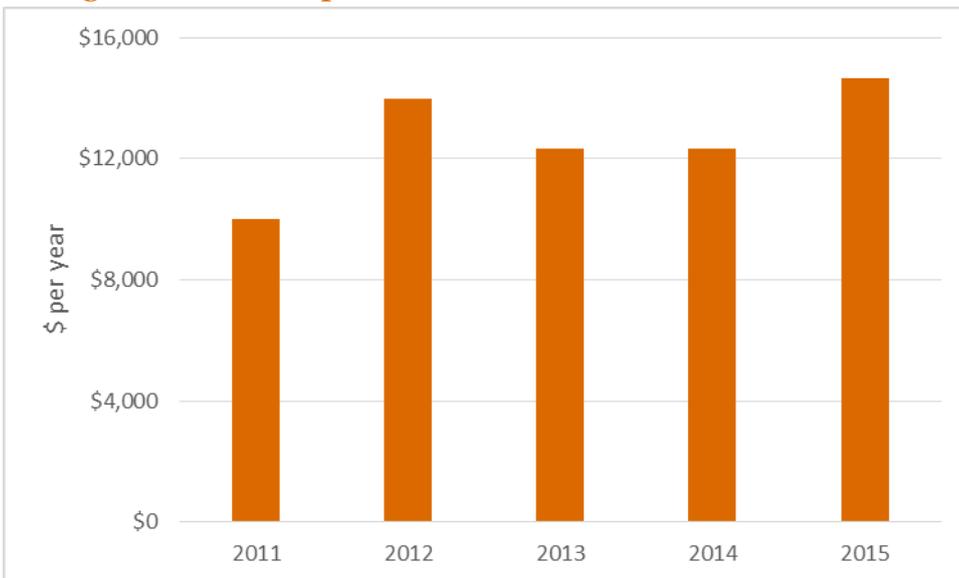
The biggest expense incurred by WCEPT is the remuneration paid to the Trustees. These fees have remained at a modest level over the review period. The 2015 WCEPT average Trustee remuneration of \$14,667 was significantly less than the average of the other trusts. We note that WCEPT's Trustee fees have increased at an average rate of 11.7% per annum over the review period, with increases in 2012 and 2015.

Trust expenditure per ICP



Source: Annual Reports

Average remuneration per Trustee



Source: Annual Reports

4. Westpower performance

4.1. Overview

Westpower Limited owns and operates the West Coast's electricity distribution business ("EDB"). In addition, Westpower owns other closely related businesses, which support the Company's core business. These include:

- An 88% shareholding in AHL, which operates a hydro generation plant that was commissioned in July 2013
- ElectroNet, a transmission, distribution and electrical contracting business, including Mitton ElectroNet Limited, an electrical engineering consultancy business.

In recent years the Company has placed a heavy focus on improving network reliability. In addition, over the last five years the Company, supported by the Trust, has continued to build growth through diversification along the electricity value chain, as evidenced by the AHL investment, a prospective further hydro generation investment and continued growth of the contracting and consulting operations.

One current issue for the Company is the proposed changes to the Transmission Pricing Methodology (TPM). The current proposal would see total charges by Transpower to Westpower for use of the transmission grid potentially double by 2019. The increase would be offset by a reduction in avoided cost of transmission (ACOT) charges so overall lines charges to consumers may not change materially. However, the reduction in ACOT payments would disadvantage Westpower as the operator of a hydro generation scheme. We note Westpower has successfully lobbied for improvements to the TPM proposal and is no longer likely to pay for the full costs of the West Coast Grid Upgrade, which was implemented to supply businesses operating on the West Coast that have now closed down (eg Pike River and Oceana Gold).

4.2. Financial performance

Westpower Group EBITDA and net profit after tax have grown over the 5-year review period, albeit with a dip in 2014. Trends that have influenced EBITDA and NPAT include:

- Increasing revenues from the contracting business, particularly in 2013 and 2015
- Revenues from AHL starting in 2014 and increasing by 60% in 2015
- Gross consumer discounts (pre-tax) of nearly \$2m in 2012, 2014 and 2015 and of nearly \$1m in 2011 and 2013
- Revenues from the lines business (excluding transmission charges) growing by approximately 2.5% per year over the review period. This is encouraging considering the exit of large customers that has been experienced by the network. Westpower has experienced modest growth in customer numbers (just under 1% per year) over the review period.
- Increasing costs in 2014 and 2015, reflecting the costs of operating AHL and addressing the effects of Cyclone Ita, a major storm event that occurred in April 2014.

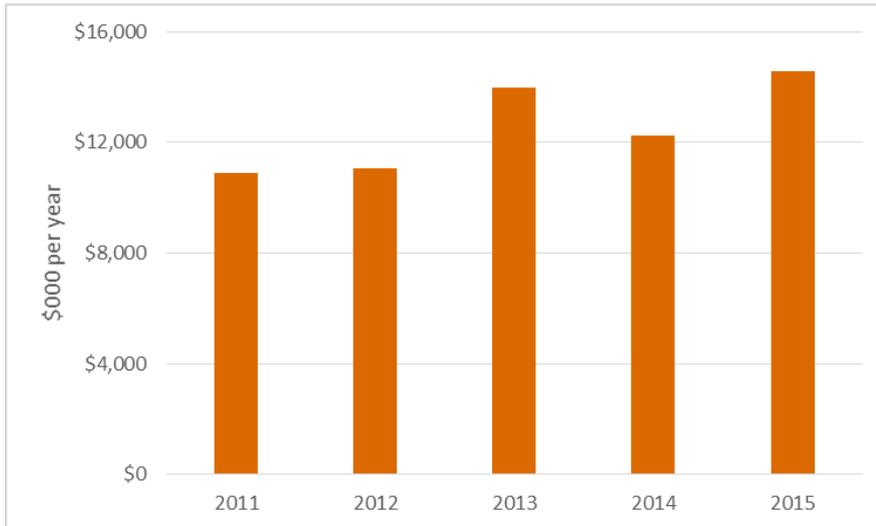
It can be seen that the contracting business consistently delivers more than 50% (in some years nearly 60%) of Group revenues, while in 2015 Amethyst Hydro delivered 7% of Group revenues. The proportion of total revenues provided by the network business (even including Transpower charges) has been declining over the review period and it appears the best growth opportunities for Westpower Group may lie in non-network activities.

Westpower (group) - Statement of Financial Performance 2011-2015

Westpower Limited (group) For the year ended 31 March (\$000)	2011	2012	2013	2014	2015
Statement of financial performance					
Operating revenue	44,670	44,493	50,379	51,432	61,164
Expenses excluding depreciation	(33,793)	(33,408)	(36,390)	(39,193)	(46,614)
EBITDA	\$10,877	\$11,085	\$13,989	\$12,239	\$14,550
Depreciation	(4,898)	(5,206)	(5,287)	(5,086)	(5,501)
Profit before consumer discounts and tax	5,979	5,879	8,702	7,153	9,049
Consumer discount	(880)	(2,009)	(974)	(1,991)	(1,979)
Profit before tax	5,099	3,870	7,728	5,162	7,070
Taxation expense	(1,885)	(1,092)	(2,486)	(1,460)	(2,442)
Profit after tax	\$3,214	\$2,778	\$5,242	\$3,702	\$4,628
Statement of comprehensive income					
Profit after tax	3,214	2,778	5,242	3,702	4,628
Gains on revaluation	9,375	-	(15,330)	613	-
Fair value of cashflow hedges	(79)	123	1,139	268	(886)
Income tax on other comprehensive income	(1,859)	(51)	4,116	(262)	248
Total comprehensive income	10,651	2,850	(4,833)	4,321	3,990
Statement of movements in equity					
Equity at start of the year	101,459	112,104	115,168	110,179	114,308
Total comprehensive income	10,651	2,850	(4,833)	4,321	3,990
Contributions from equity holders	150	370	-	-	800
Dividends to equity holders	(156)	(156)	(156)	(192)	(396)
Equity at end of the year	112,104	115,168	110,179	114,308	118,702
Ratio analysis					
Revenue split					
Network	40.5%	43.7%	38.8%	38.3%	33.5%
Contracting	57.4%	52.5%	59.2%	54.5%	57.0%
Generation	-	-	-	5.2%	7.0%
Other	2.1%	3.7%	2.0%	1.9%	2.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Contracting revenue / network revenue	141.7%	120.1%	152.6%	142.3%	170.0%
Growth rates					
Revenue	5.8%	(3.2%)	(0.4%)	13.2%	18.9%
Expenses excluding depreciation	6.6%	(0.2%)	(1.1%)	8.9%	18.9%
Profit before consumer discounts and tax	3.2%	(22.8%)	(1.7%)	48.0%	26.5%
Profit after tax	(3.4%)	(41.6%)	(13.6%)	88.7%	25.0%
Margins					
Profit before consumer discounts and tax	13.4%	13.2%	17.3%	13.9%	14.8%
Profit after tax	7.2%	6.2%	10.4%	7.2%	7.6%

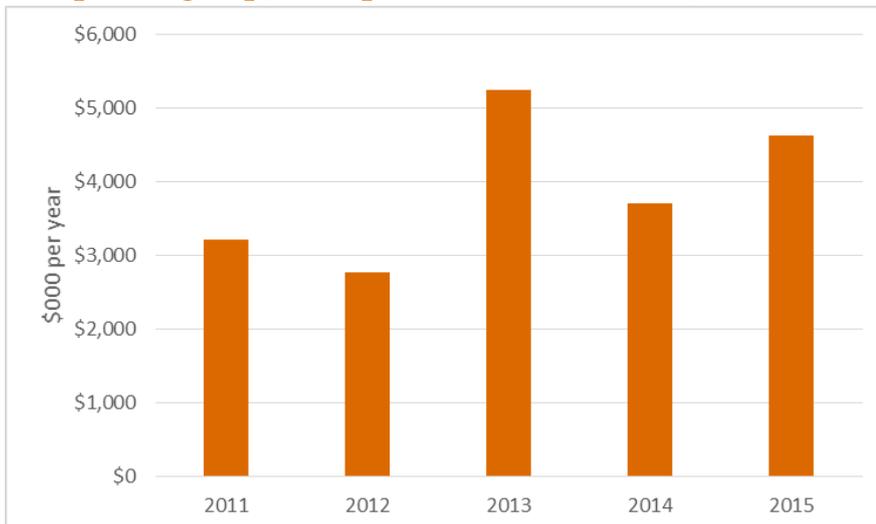
Source: Annual Reports

Westpower (group) – Earnings before Interest, Tax, Depreciation and Amortisation 2011-2015



Source: Annual Reports

Westpower (group) – Net profit after tax 2011-2015



Source: Annual Reports

4.3. Financial position

Westpower's financial position in the five years up to 31 March 2015 is shown below. This demonstrates a moderate level of debt relative to the value of its assets with a gearing ratio¹ of 20% as at 31 March 2015. Westpower therefore has further borrowing capacity to meet network investment requirements or undertake new business ventures as required.

Over the review period the Company has reduced its current liabilities and increased its non-current liabilities, while total liabilities have remained largely flat. This reflects the company paying down debt associated with the network business, which was recorded as short-term, while increasing debt in order to invest in AHL. The Company's assets have grown slightly (6%) over the review period.

¹ Defined as debt / debt + equity.

Westpower (group) - Statement of Financial Position 31 March 2011-2015

Westpower Limited (group) As at 31 March (\$'000)	2011	2012	2013	2014	2015
Statement of financial position					
Equity	112,104	115,168	110,179	114,308	118,702
Share capital	30,000	30,000	30,000	30,000	30,800
Reserves	20,939	21,023	10,869	11,442	10,883
Retained earnings	60,122	62,753	67,912	71,453	75,761
Minority interest	1,043	1,392	1,398	1,413	1,258
Non-current assets	139,234	150,547	154,096	156,659	157,125
Property, plant and equipment	130,803	142,005	144,706	147,379	148,387
Goodwill and other intangible assets	7,569	7,647	7,578	7,504	7,486
Other investments	836	889	906	906	791
Finance lease receivable	26	6	-	-	-
Financial derivatives	-	-	906	870	461
Current assets	23,023	14,240	12,800	13,677	15,229
Cash and cash equivalents	1,481	2,692	2,104	3,523	3,756
Trade and other receivables	20,477	10,288	9,567	9,018	10,363
Finance lease receivable	17	20	6	-	-
Financial derivatives	-	-	-	-	16
Inventories	1,048	1,124	1,123	1,057	1,094
Income tax receivable	-	116	-	79	-
Total assets	162,257	164,787	166,896	170,336	172,354
Non-current liabilities	20,592	24,605	37,709	41,637	42,899
Loans and borrowings	300	4,550	21,600	25,050	25,050
Financial derivatives	724	347	304	-	555
Contract retentions held	-	305	-	-	-
Finance lease payable	47	-	-	10	54
Employee benefits	432	439	506	573	601
Deferred tax liabilities	19,089	18,964	15,299	16,004	16,639
Current liabilities	29,561	25,014	19,008	14,391	10,753
Trade and other payables	4,277	4,871	4,645	4,082	4,309
Contract retentions held	-	-	243	-	-
Employee benefits	1,564	1,698	1,806	2,035	2,226
Finance lease payable	87	47	-	22	48
Financial derivatives	-	248	62	62	-
Current portion of borrowings	23,508	18,150	11,800	8,190	4,000
Income tax payable	125	-	452	-	170
Total liabilities	50,153	49,619	56,717	56,028	53,652
Net assets	112,104	115,168	110,179	114,308	118,702

Source: Annual Reports

4.4. Performance against SCI targets

Each year, the Board of Directors and Trustees negotiate an SCI that outlines what the Company aims to achieve for the coming year. The Trustees are therefore able to ensure that customer interests are being served.

The figures below show how Westpower has performed against its SCI targets over the review period.

Performance against SCI targets, 2011-2013

Measure	2011			2012			2013		
	SCI	Actual	Achieved	SCI	Actual	Achieved	SCI	Actual	Achieved
Lost time injury frequency rate	0	7.32	X	0	17.16	X	0	4.81	X
Number of reported breaches of resource consent conditions	0	0	✓	0	0	✓	0	0	✓
Number of environmental incidents	0	0	✓	0	0	✓	0	0	✓
Opex ratio (opex/system asset depreciated replacement cost)	6.5%	6.4%	-	6.5%	6.6%	-	6.6%	7.8%	-
Capex ratio (capex/system asset depreciated replacement cost)	5.1%	3.3%	-	5.1%	3.8%	-	4.9%	4.5%	-
Renewal ratio (asset renewal opex and capex / depreciation)	119%	83%	-	119%	84%	-	39%	59%	-
Group operating surplus before tax (\$m)	\$6.60	\$5.10	X	\$6.14	\$3.87	X	\$6.95	\$7.70	✓
Post discount operating surplus before tax on consolidated shareholder funds	6.2%	2.9%	X	5.1%	3.4%	X	5.9%	7.0%	✓
Proportion of contracting revenues from group external parties	30%	71%	✓	30%	67%	✓	30%	68%	✓
Consolidated shareholders funds to total assets	50%	69%	✓	50%	70%	✓	50%	66%	✓

Source: SCI reports

Performance against SCI targets, 2014-2015

Measure	2014			2015		
	SCI	Actual	Achieved	SCI	Actual	Achieved
Lost time injury frequency rate	0	11.73	✓	0	1.95	✓
Number of reported breaches of resource consent conditions	0	0	✓	0	0	✓
Number of environmental incidents	0	0	✓	0	0	✓
Opex ratio (opex/system asset depreciated replacement cost)	8.1%	8.6%	-	8.7%	9.3%	-
Capex ratio (capex/system asset depreciated replacement cost)	2.7%	2.6%	-	2.3%	2.8%	-
Renewal ratio (asset renewal opex and capex / depreciation)	42%	65%	-	41%	45%	-
Generation availability	-	-	-	90%	99%	✓
Generation capacity	-	-	-	85%	79%	X
Group operating surplus before tax (\$m)	\$8.9	\$5.2	X	\$10.7	\$7.1	X
Post discount operating surplus before tax on consolidated shareholder funds	7.9%	4.5%	X	8.8%	6.0%	X
Proportion of contracting revenues from group external parties	30%	71%	✓	30%	78%	✓
Consolidated shareholders funds to total assets	50%	67%	✓	50%	69%	✓

Source: SCI reports

Based on the SCI results above, we note that:

- The Company has a zero harm policy. There were lost time injury incidents in all years, although 2015 was the lowest during the review period. The Company leadership has a strong current focus on improving health and safety of its workforce.
- The Company has successfully avoided any environmental incidents or reported breaches of resource consent conditions in all years of the review period.
- For the opex ratio, capex ratio and renewal ratio, both the targets and actual ratios have fluctuated over the review period. The opex ratio has generally been close to the target, the capex ratio was below target except in 2015 and the renewal ratio has varied over time. We note the targets are not specified as levels the company should be above or below, but as levels the company would expect to be close to over time.
- In 2015, the only year in which a target and actual results are available, AHL's hydro generation availability exceeded SCI targets but hydro generation capacity was below target.
- Group operating surplus has been below target in all years of the review period except 2013. We understand that where targets have not been met, this tends to reflect aggressive target setting alongside recognised fluctuations in revenues within the contracting business.
- The proportion of contracting revenues from supply to third parties has consistently been significantly better than the target, reflecting the diverse base of customers supplied by ElectroNet.
- The Company has a very healthy proportion of equity to total assets.

5. Westpower electricity network performance

5.1. Industry performance benchmarking

5.1.1. Overview

We have examined the relative performance of Westpower, its peers and the industry as a whole, using the information disclosure framework supplemented with information from Asset Management Plans (AMPs) and other network characteristics. In addition to assessing current performance we have considered reliability data since 2000, financial data since 2006 and forecast expenditure data up to 2026 (thus incorporating historical and forecast information) to avoid the impact of short term variances. This approach is useful for entities managing long term assets.

It is important to note that distribution networks are complex and these complexities cannot be adequately represented by the information and indicators available through the Information Disclosure Determination. Topography, climate, growth rates (past and current), historical design practices and network configuration are all factors which can significantly impact network performance, and none of these are well represented in the information disclosure data. The disclosure data therefore provides a high level indication of performance that should be subject to further consideration and investigation.

For the purpose of this report we have grouped Westpower with 8 comparable EDBs with similar urban/rural and density characteristics, and of a similar size, as these are key drivers of network performance, cost and efficiency. We have considered network reliability, expenditure levels, prices and profits in our assessment of performance.

This report examines the relative performance of Westpower and its peers, using the following information:

- The information disclosure framework which forms part of the regulatory regime for EDBs administered by the Commission, using information from the information disclosures published by each EDB
- Network characteristics such as terrain, climate, vegetation growth, network growth, and urban, rural and remote characteristics, sourced from a variety of data sources and our own knowledge of each network
- Forecasts of expenditure from AMPs
- Forecasts of network performance (reliability) and installed capacity from the targets contained in AMPs and annual disclosures.

In addition, where possible we have considered qualitative information available about each network, its strategies, objectives and plans. This assessment is preliminary and is based on our understanding of each of the networks. More detailed investigation into such information will provide more useful insights than those we have been able to include in this report.

Appendix B includes detailed data and performance indicators used in assessing the performance of Westpower.

5.1.2. Grouping Networks for Comparison Purposes

Any comparison between the performances of businesses must take into account the fundamental differences in the external environment of each business. These differences are due to the varying environmental factors and geographic characteristics of the regions in which the businesses are based. These are an important determinant of the service quality performance and efficiency measures of each distribution business. It is

critical therefore that at least some of these factors are normalised (or partially normalised) when undertaking comparative analysis. We achieve this by focussing specifically on comparisons with networks which exhibit the underlying characteristics which are most similar to Westpower.

We have undertaken many exercises comparing the performance of EDBs using disclosure data. It is our experience that when comparing the performance of the EDBs in New Zealand, it is appropriate to group networks for the purpose of assessing relative performance, on the basis of the following indicators:

- Network density (indicated by the ratio of customer connections per circuit kilometre)
- Total size of the network (indicated by the total number of customer connections served).

Scale (or total size of the network) is one means by which EDBs can achieve efficiencies. In principle it is questionable whether EDBs should be eliminated from a peer grouping based on this criterion for the purpose of performance and efficiency comparison. However, as there are significant scale differences in New Zealand, and as Westpower falls towards the lower end of the scale spectrum, we have chosen to include this criterion in our peer grouping approach. In our view this is reasonable because the largest networks are considerably larger than Westpower. It is unreasonable to expect that Westpower would have access to the same economies of scale available to the largest networks.

For the purposes of this report therefore we have selected a peer group for Westpower as follows:

- Firstly we have eliminated from the peer group, those EDBs which have high connection density (defined as > 8 ICPs per kilometre). This resulted in MainPower New Zealand, Northpower, Horizon Energy Distribution, Network Tasman, Waipa Networks, Powerco, Unison Networks, Counties Power, Aurora Energy, WEL Networks, Orion New Zealand, Electra, Electricity Invercargill, Vector, Nelson Electricity and Wellington Electricity Lines being eliminated from the peer group.
- Of the remaining EDBs, we eliminated The Power Company (with approximately 35,000 ICPs), Alpine Energy (with approximately 31,700 ICPs) and Top Energy (with approximately 30,700 ICPs) as they are considerably larger than Westpower (with approximately 13,300 ICPs).
- Finally we also eliminated Scanpower from the peer group given it operates solely at 11kV and LV, and thus the network is of a fundamentally different design and configuration to the rest of the peer group.

As a result, for the purpose of this report we have grouped Westpower with the following comparable EDBs which are characterised as small networks with modest urban hubs which service significant rural and remote rural areas.

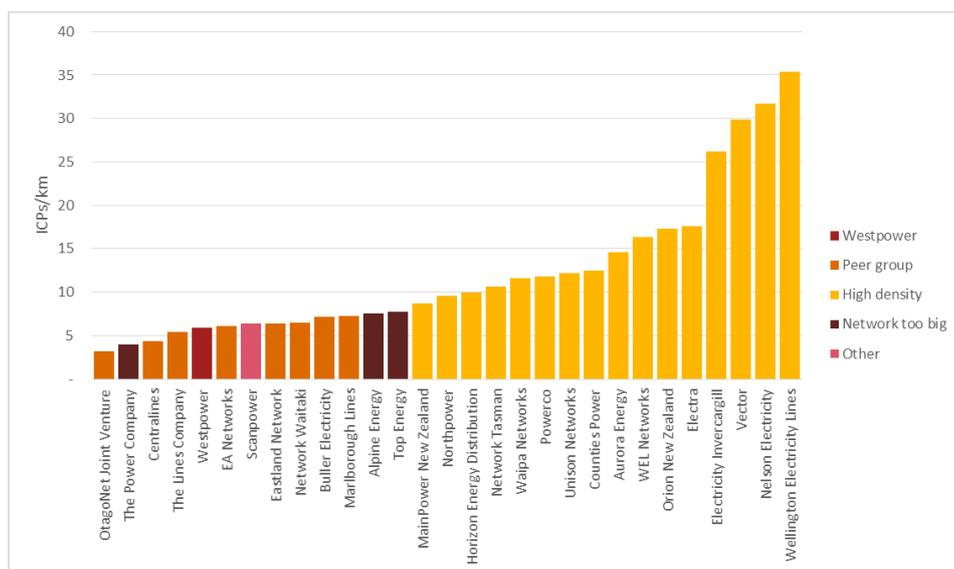
Selected peer group²

Peer group	Connection points (ICPs)	Connection Point Density (ICP/km)
Buller Electricity	4,606	7.19
Centralines	8,439	4.34
Network Waitaki	12,554	6.51
Westpower	13,316	5.89
OtagoNet Joint Venture	14,781	3.19
EA Networks	18,419	6.12
The Lines Company	23,584	5.45
Marlborough Lines	24,674	7.30
Eastland Network	25,392	6.42
Peer group average	16,196	5.82
Peer group median	14,781	6.12

Source: PwC Analysis

² EA Networks is the trading name of Electricity Ashburton Limited. This report uses the term EA Networks.

Peer group density



Source: PwC Analysis

5.1.3. Westpower and the Peer Group

Appendix B includes detailed key performance indicators (KPIs) for Westpower and each of the EDBs included in the peer group, in addition to the overall industry average performance for 2014 and 2015. The following narrative focuses on notable observations about current performance in respect of network densities, reliability, expenditure, profit and price. In making these observations we have drawn on the information contained in Appendix B to assist us in interpreting performance, along with our own knowledge of the networks in the peer group. As previously noted, no single measure provides a complete picture of performance. Examination of the indicators included in Appendix B is recommended to provide additional insights into the relative performance of Westpower.

Note that all charts present in this section of the report are sourced from PwC's Electricity Compendium Databases.

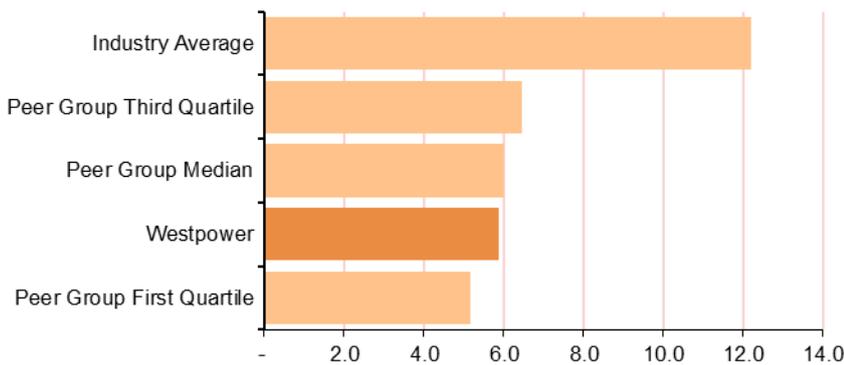
5.1.4. Network Characteristics

The networks within the peer group operate geographically dispersed networks servicing provincial centres and significant rural and remote rural areas. The size of Westpower, measured on the basis of the number of connections (ICPs) falls between the first quartile and median of the peer group, while Westpower's connection density is slightly lower than the median of the peer group in 2015. The influence of investments made to supply larger network customers results in Westpower being ranked above the median of the group in terms of energy and capacity density.

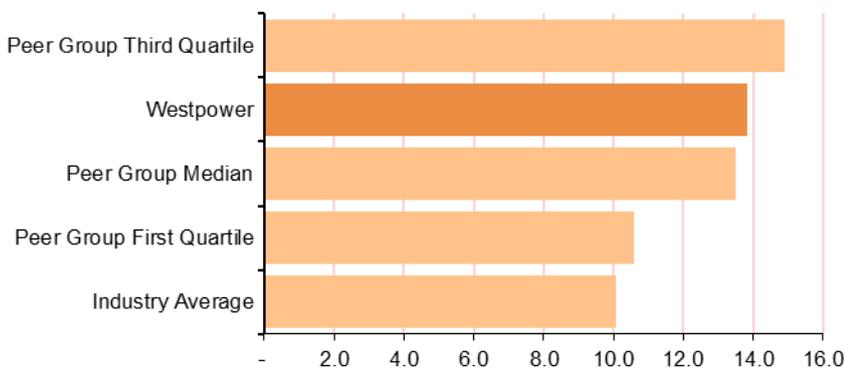
We note that some other members of the peer group, such as EA Networks, OtagoNet JV and Network Waitaki, also service a number of larger customers.

The following charts illustrate the key density indicators for Westpower and the industry and peer group benchmarks.

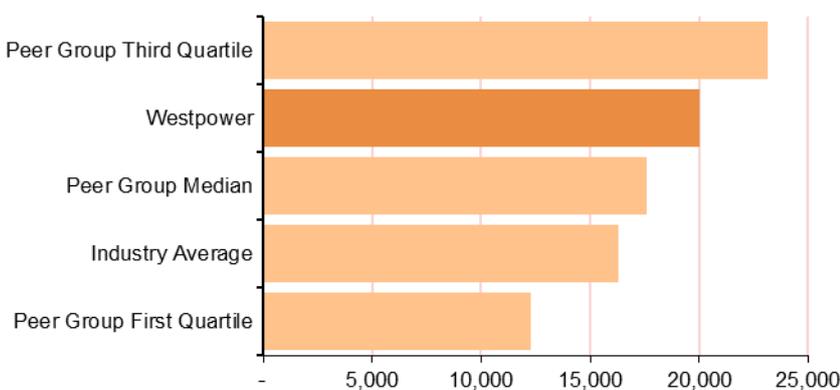
Connection Point Density (ICP/km)



Capacity Density (kVA/ICP)



Energy Density (kWh/ICP)



Westpower’s network is dominated by rural terrain, with 84% of its circuit length located in rural terrain, the second highest in the peer group and above the peer group median of 70%. Westpower has 9% located in rugged and remote areas, which falls below the group median of 15%. The remainder of Westpower’s reticulation is located in urban areas.

Some members of the peer group, including OtagoNet JV, Marlborough Lines and Eastland Network have a large proportion (>40%) of reticulation located in remote and rugged terrain.

Westpower has 15% of circuit length designated as subtransmission, which is consistent with the peer group who also operate long, stringy networks where extensive subtransmission voltage lines are required. The industry average is 8%, reflecting the influence of networks where there is less need for subtransmission.

Compared to the peer group, Westpower's loss ratio of 6.2% in 2015 is consistent with the first quartile of the peer group, reflecting in part the relatively small proportion of remote and rugged reticulation. Those networks with longer remote lines, such as The Lines Company perform worse on this indicator. We note the loss measure may also include non-technical losses (such as metering errors) and we are unable to distinguish between technical and non-technical losses from the information disclosure dataset we have available to us.

5.1.5. Growth trends

We have considered Westpower's recent growth trend (from 2011 to 2015) with the peer group and wider industry. Westpower has recorded relatively strong long term growth in some areas but not in others, as follows:

- Electricity supplied growth (-2.3% p.a.) is the lowest of the peer group and below the industry median of 0.4%; this is likely to reflect the exit of large customers from the network
- Growth in installed transformer capacity (0.6% p.a.) is equal to the peer group first quartile and below the industry median (1.3% p.a.)
- Total system length has increased by 1.3% p.a for Westpower, equal to the peer group median and above the industry median of 0.7% p.a. from 2005-2015
- Westpower's long-term ICP growth rate has been 0.9% p.a., above the industry median of 0.5% p.a. and the peer group median of 0.5% p.a.

We note that some of these observations may be influenced by changes in reporting methodology. These are consistent with a network that has seen large customers exit but has ongoing growth in small connections.

Westpower does not forecast any increase in installed firm zone substation capacity over the next five years. As several large customers have exited the network it seems unlikely Westpower will be requiring significant investment to meet growth in the foreseeable future.

5.1.6. Reliability

Reliability of supply data is influenced by significant weather events, which are common in New Zealand due to the weather systems experienced across the country (wind, rain and snow), which cause damage to the largely overhead distribution networks.

The peer group includes networks with poor reliability when compared to the industry median. This reflects relatively low density and a low proportion of underground reticulation.

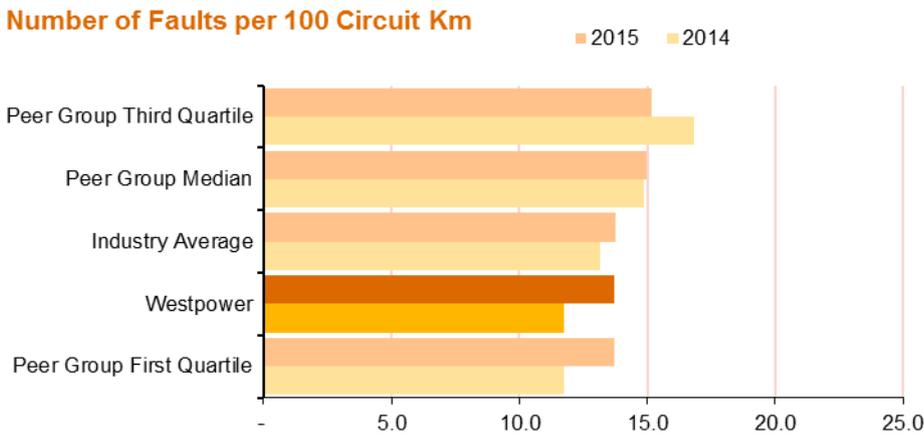
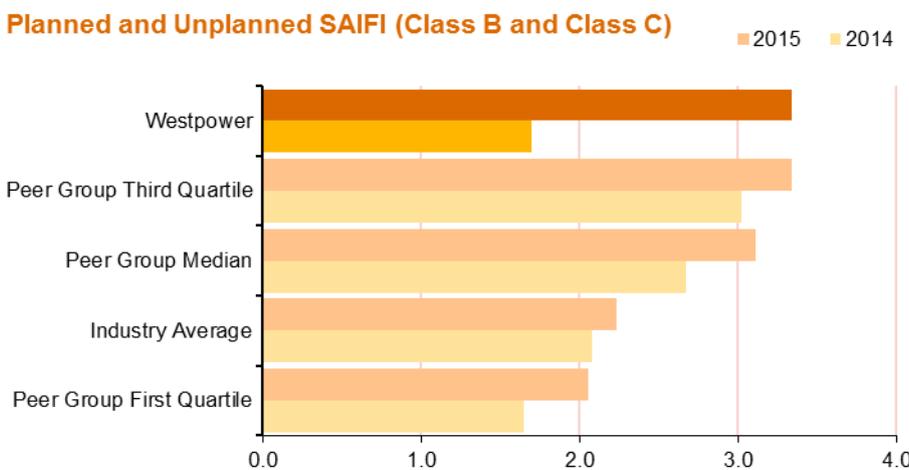
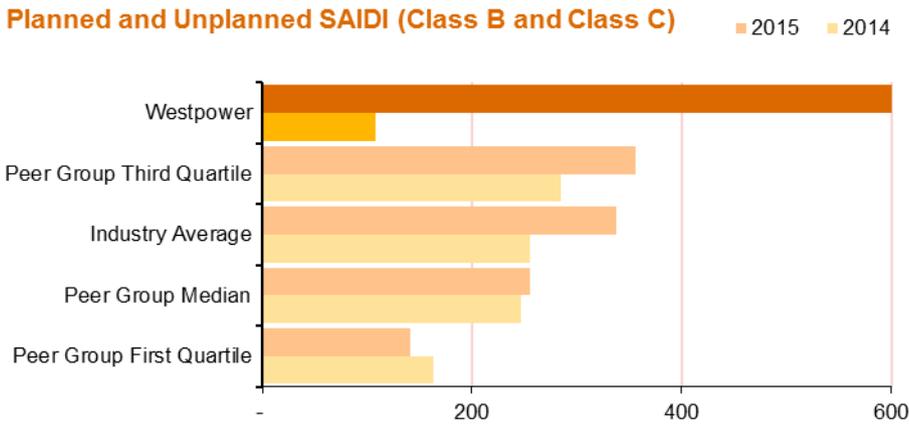
Recent reliability performance

Westpower's reliability performance was relatively poor in 2015 as a result of the effect of Cyclone Ita, but good in 2014 when compared to its peer group. The long-term trends, discussed below, show that 2015 was an abnormally poor year while 2014 was somewhat better than average for Westpower. The number of faults per km for Westpower is also better than the industry average and peer group median in 2015, suggesting that Westpower experienced larger events than its peers in this period (ie Cyclone Ita).

It should be noted that there is a wide variation in the reliability performance of the members of the peer group with 2015 SAIDI stretching from 51 minutes (Network Waitaki) to 2,747 minutes (Buller), likely reflecting the networks that were worst affected by Cyclone Ita.

Westpower has low planned SAIDI and SAIFI relative to the peer group, implying other networks are currently undertaking more network upgrades.

The following charts show key reliability indicators for Westpower, its peer group and industry wide benchmarks:



Long-term reliability performance

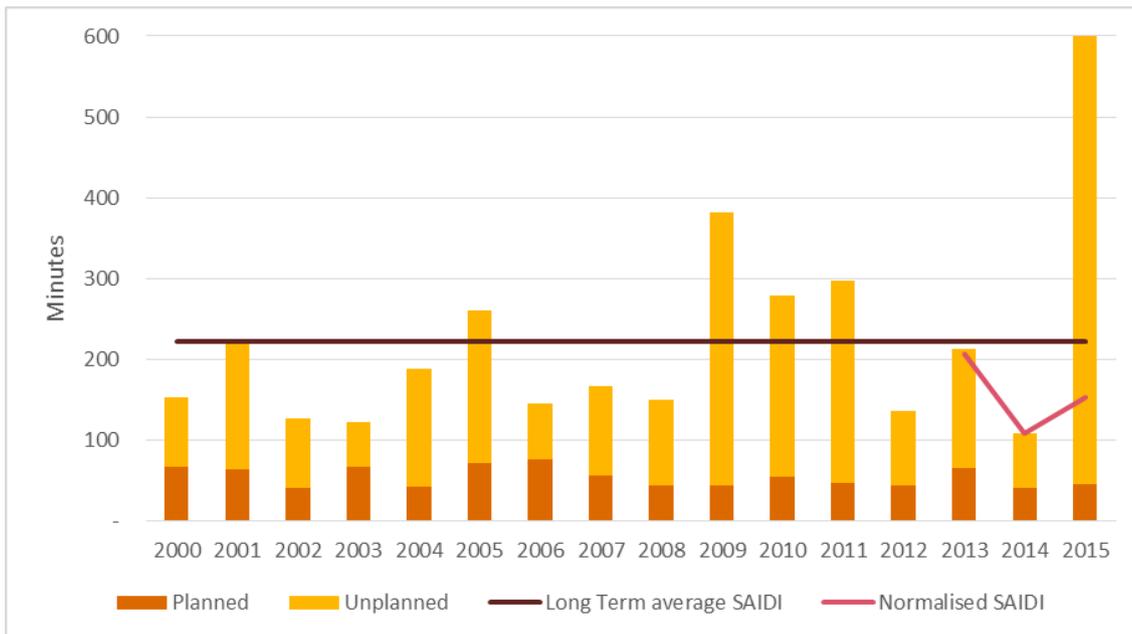
We have also considered the reliability targets provided by Westpower as part of its 2016 AMP.

Westpower’s own network SAIDI and SAIFI are forecast to remain flat in each year up to 2021. The forecasts are somewhat above actual SAIDI and SAIFI in 2014 but well below actual SAIDI and SAIFI in 2015. Just over half of the peer group are forecasting constant targets over the next five year period. Buller Electricity, Marlborough Lines and OtagoNet JV are targeting improvements in unplanned SAIDI and SAIFI over time.

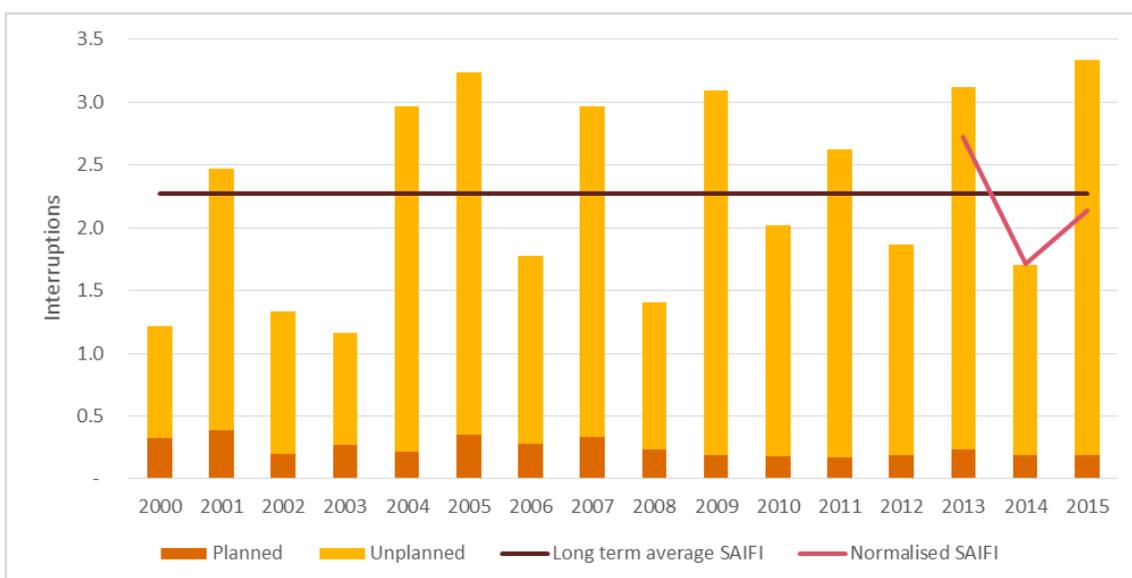
We have not analysed the long term historical reliability performance of the peer group due to the influence of extreme events experienced during the 2000 – 2015 period, which we are unable to normalise for. We do not see any clear trend in Westpower’s long-term SAIDI or SAIFI. Long term average own network SAIDI of 222 minutes has been inflated by the very high SAIDI in 2015. Excluding 2015 the average would be 197 minutes. SAIFI in 2015 (3.2) is higher than the long term average of 2.3 interruptions but SAIFI in 2014 (1.5) is below the long-term average. The following charts show the long term trend data and also normalised data from 2013, which is the year normalised values began to be disclosed.

We would expect to see underlying SAIDI and SAIFI (ie excluding the effects of major outage events) to improve over time as a result of ongoing expenditures to enhance reliability. However, Westpower is located in a region that experiences poor weather conditions and a level of volatility is to be expected in the results.

Long-term SAIDI (own network)



Long-term SAIFI (own network)



5.1.7. Expenditure

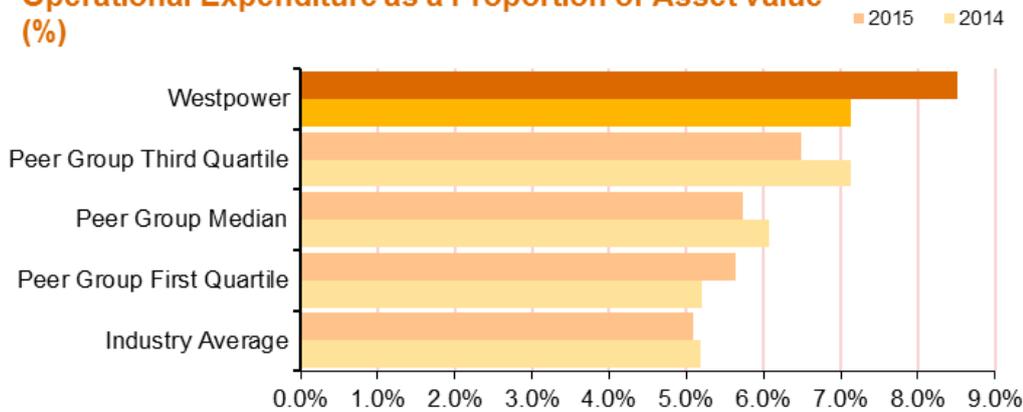
We have analysed expenditure for 2014 and 2015 using operating expenditure, capital expenditure and total cash expenditure³. Operational expenditure includes network expenditure, system operations and network support expenditure and business support expenditure. For the purpose of the long term expenditure analysis we have calculated long term average expenditure indicators using data from 2005 – 2015. A key component of the expenditure forecast is the maintenance and capital expenditure forecasts derived from AMPs.

Total Operational Expenditure

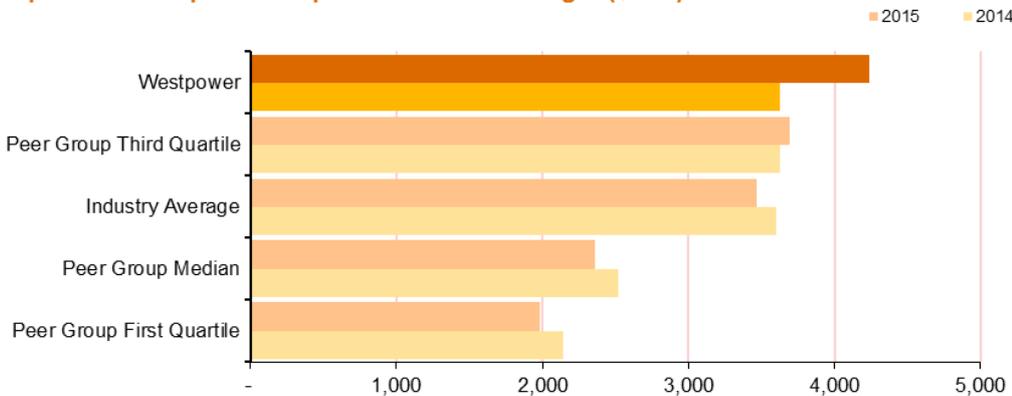
Total operational expenditure for 2014 and 2015 for Westpower falls above the third quartile of the peer group. The increase in opex in 2015 is likely to be the result of the response to Cyclone Ita. However, we note that opex has declined since 2013. Westpower also has a current focus on finding operating cost efficiencies.

We address each component of operational expenditure in the following sections.

Operational Expenditure as a Proportion of Asset Value (%)

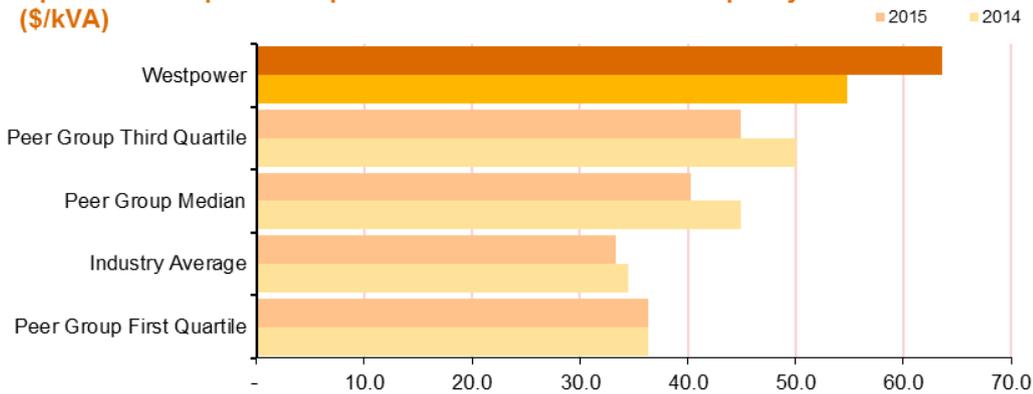


Operational Expenditure per Total Circuit Length (\$/km)



³ Excludes non-cash items such as depreciation, as well as transmission costs, interest, tax and distributions to consumers/shareholders.

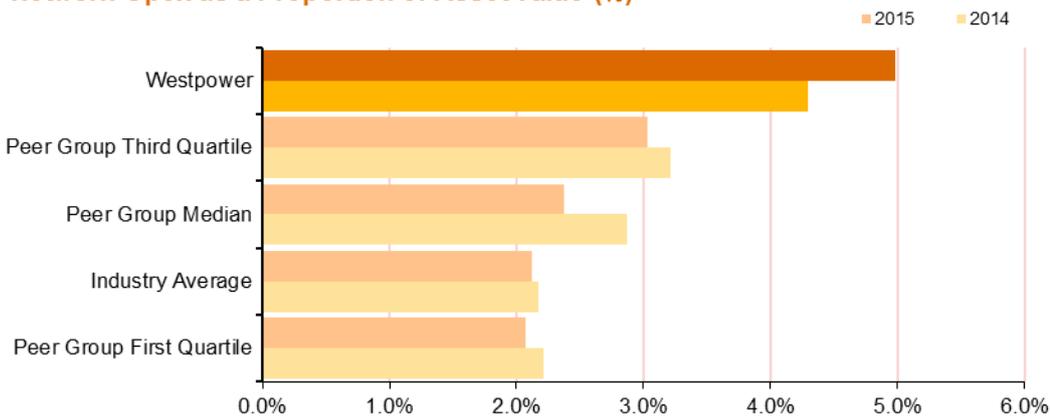
Operational Expenditure per Distribution Transformer Capacity (\$/kVA)



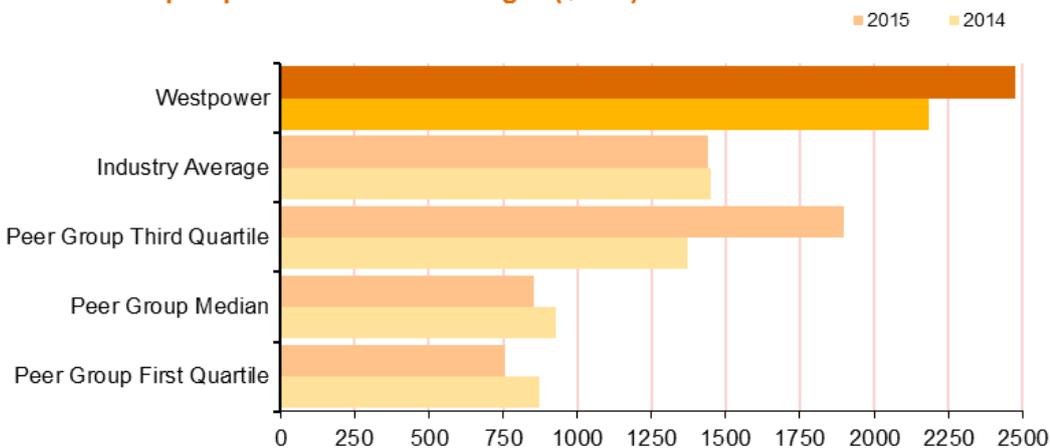
Network Operating Expenditure

Network opex generally exceeds non-network opex. Westpower’s network opex falls above the third quartile of the peer group in 2014 and 2015 when expressed as \$/km, \$/kVA and percent of asset values. Westpower, Marlborough Lines, Centralines and Buller Electricity consistently report significantly higher network opex ratios than the peer group average.

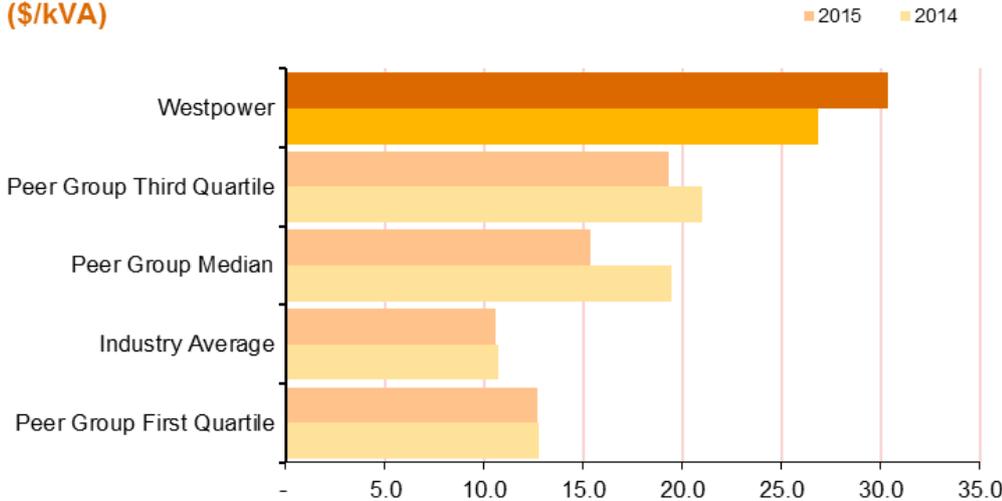
Network Opex as a Proportion of Asset Value (%)



Network Opex per Total Circuit Length (\$/km)



Network Opex per Distribution Transformer Capacity (\$/kVA)

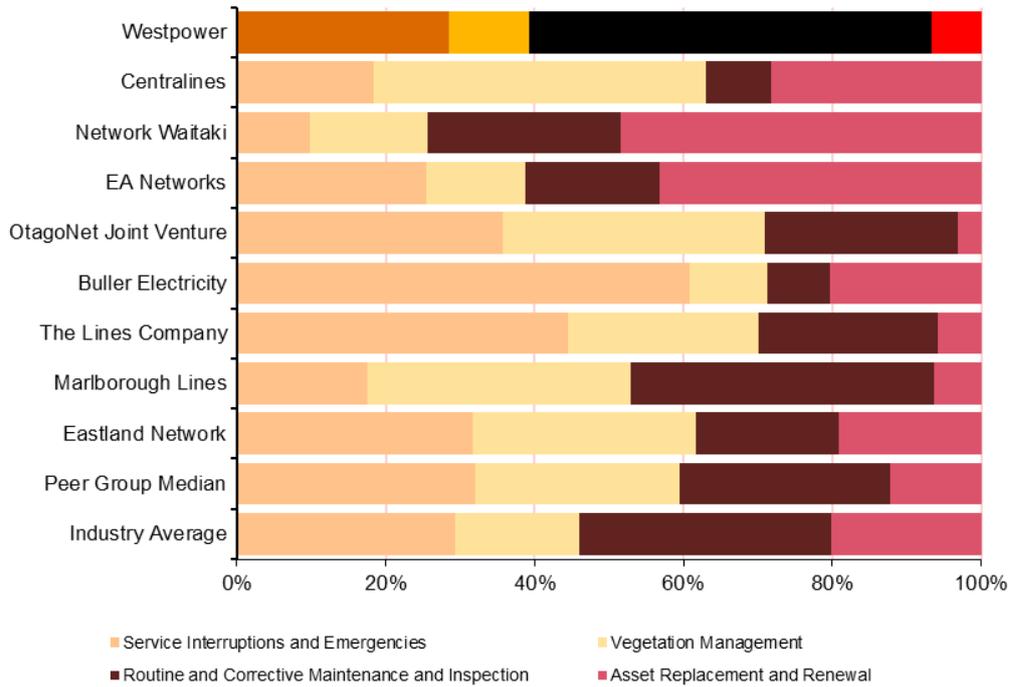


In 2014 Westpower allocated its network opex predominantly to routine and corrective maintenance and inspection (68%), then service interruptions and emergencies (12%), vegetation management (11%) and asset replacement and renewal (8%). This balance differed in 2015 with a higher allocation (28%) to service interruptions and emergencies, reflecting the efforts to restore supply following severe weather events, but 2014 is more likely to be representative of a typical year. We note there may be some variances in the manner in which EDBs allocate their expenditures between categories. Opex is also a key focus for Westpower at present.

There is some variety in the allocations of expenditure across the peer group; notably Marlborough Lines allocates a high proportion of opex to vegetation management, EA Networks allocates a high proportion to asset replacement and renewal and The Lines Company allocates a high proportion to service interruptions and emergencies.

Westpower’s expenditure on routine and corrective maintenance exceeds the peer group or the wider industry as shown in the chart below, reflecting the 2015 year. We note this may partly reflect differences in categorisation of expenditure. We also understand that Westpower has a particular focus on preventative maintenance, which is reflected in low SAIDI values for defective equipment. In addition the long, stringy nature of the network is likely to drive additional costs.

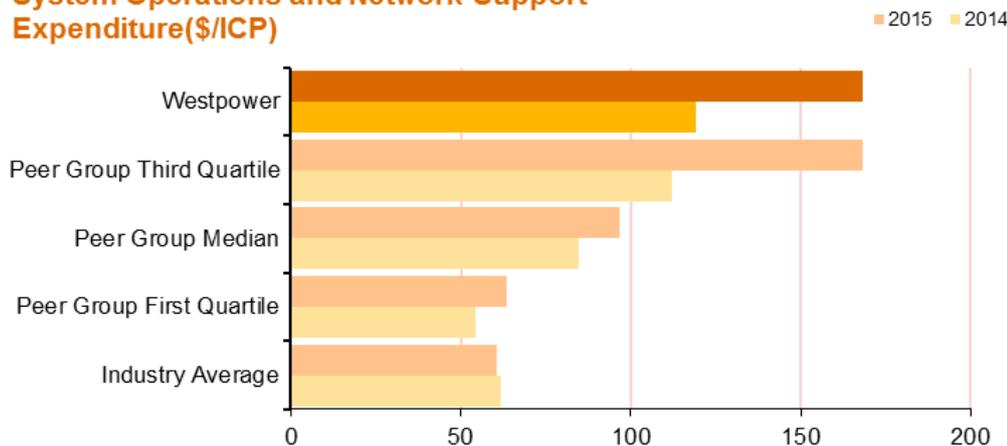
Network Opex by categories 2015



System Operations and Network Support Expenditure

Westpower's system operations and network support expenditure equals or exceeds the peer group third quartile in 2014 and 2015. Westpower's system operations and network support expenditure rank amongst the highest in the peer group and exceed the industry average.

System Operations and Network Support Expenditure(\$/ICP)

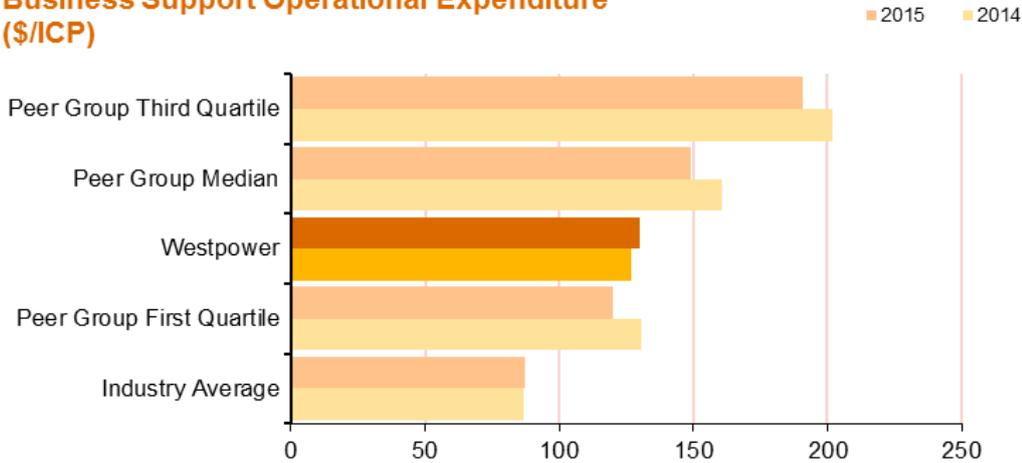


Business Support Expenditure

Westpower's business support expenditure falls below the peer group median in 2015 and below the peer group first quartile in 2014. Westpower's expenditure was above the industry average but the small size of Westpower's network relative to the rest of the industry means Westpower is expected to have fewer opportunities to achieve economies of scale. Nevertheless, Westpower has still managed to achieve relatively low business support expenditure and this will assist with offsetting relatively high network and network support expenditure.

When business support and system operations and network support opex are considered together, Westpower ranks between the median and third quartile of the peer group in 2014 and 2015. The relative balance of costs between the two non-network opex categories will be influenced by decisions by Westpower and others on how to allocate costs into each of these categories.

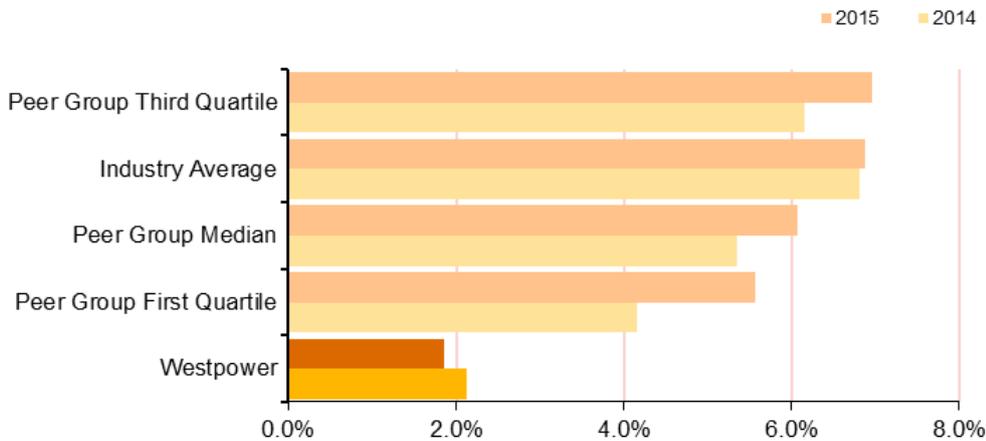
Business Support Operational Expenditure (\$/ICP)



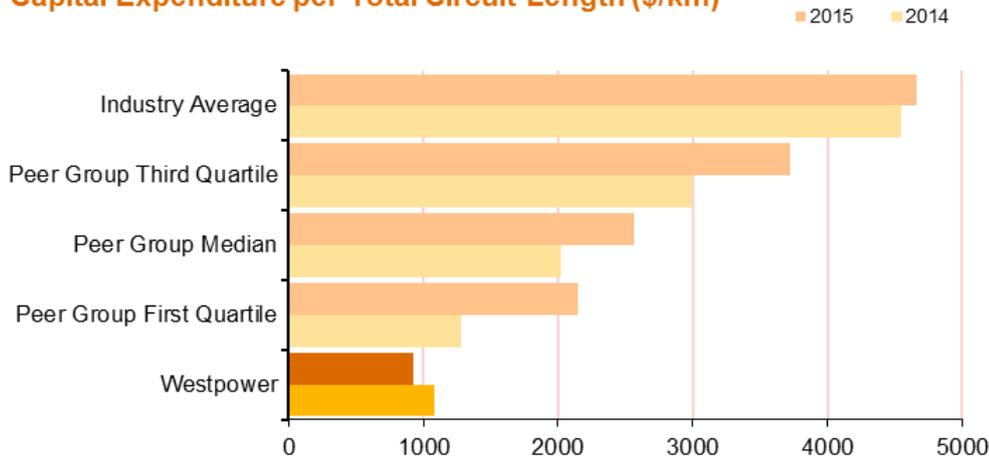
Capital Expenditure

Westpower's capital expenditure is low when compared to the peer group and the wider industry, being below the peer group first quartile when expressed as \$/km and as a proportion of asset values. This low level of expenditure is consistent with a network that is not currently experiencing growth. Levels of capital expenditure need to be assessed over time for a more relevant assessment of efficiency.

Capital Expenditure as a Proportion of Asset Values (%)

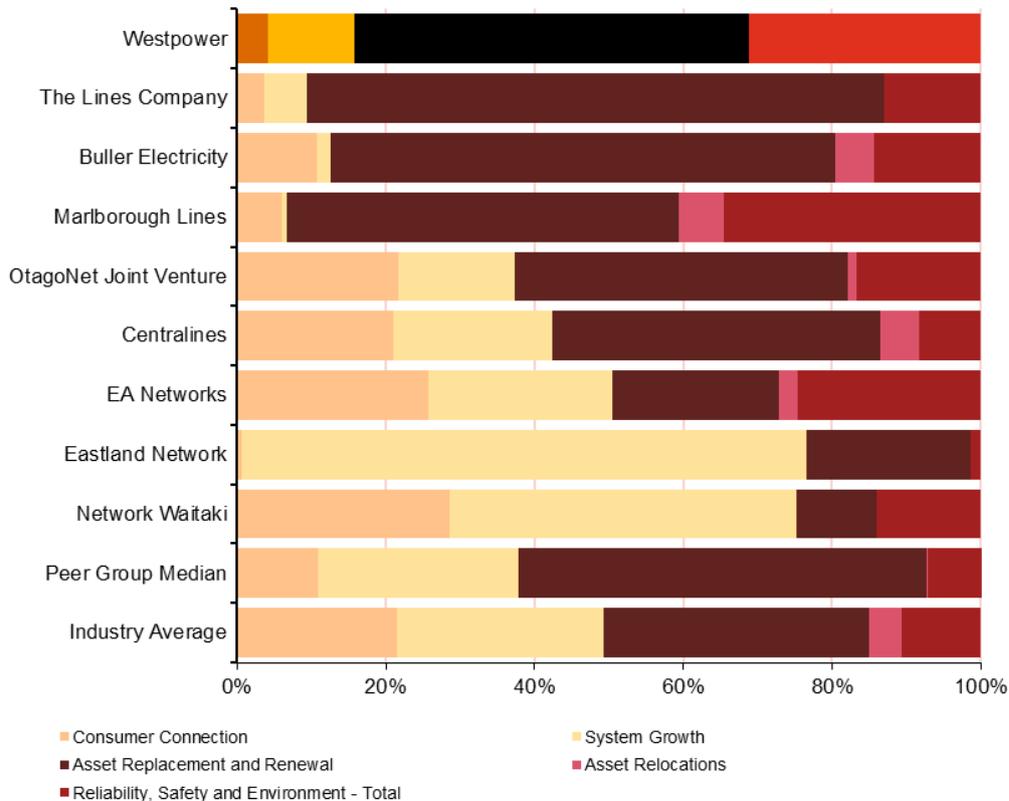


Capital Expenditure per Total Circuit Length (\$/km)



The majority of Westpower’s capex in the 2015 year (53%) related to asset replacement and renewal. This was followed by reliability, safety and environment (31%), system growth (12%) and consumer connection (4%). Several other members of the peer group, notably The Lines Company, Buller and Marlborough Lines also spent a large proportion of capex on asset replacement. Eastland Network and Network Waitaki spent more on system growth capex, while Marlborough Lines and EA Networks invested in reliability, safety and environment capex.

Network Capex by categories 2015



Over the longer term, Westpower’s average annual 2006 to 2015 capex per km is between the peer group median and third quartile and below the industry average. Of the total 10-year capex forecast to 2025, Westpower estimates 48% will be associated with asset replacement and renewal capex, 31% on reliability,

safety and environment with 16% spent on system growth projects. This profile is similar to most of the peer group which typically expect to spend considerably more capex on renewals than on growth (the exceptions are EA Networks and Network Waitaki).

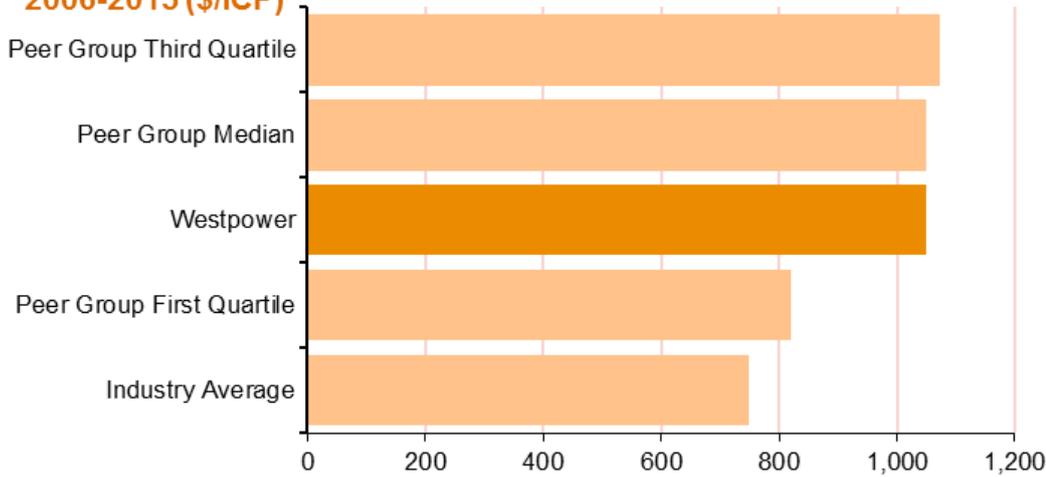
The capex projection profile for Westpower is consistent with a low growth network that is seeking to improve network reliability.

Total Cash Expenditure

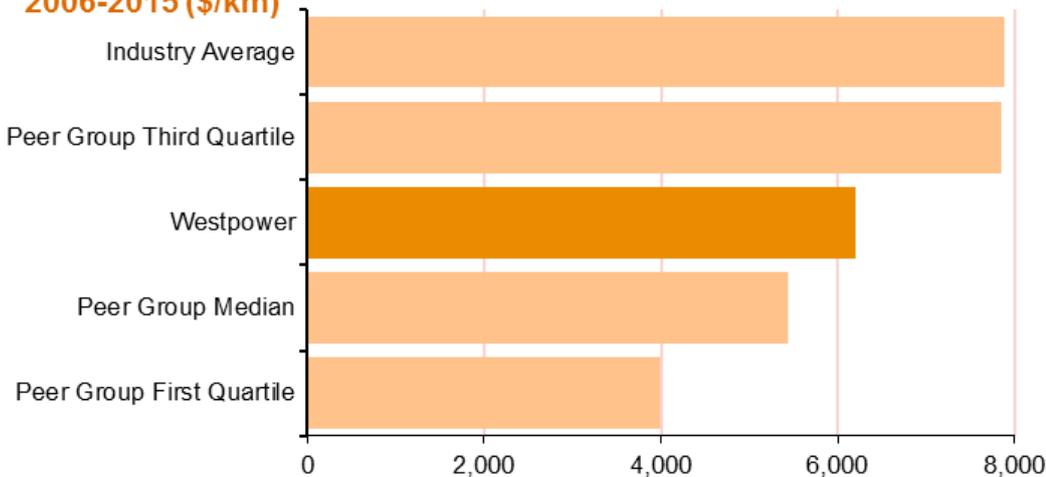
Westpower’s average annual total cash expenditure over the long term (2006 to 2015) is equal to the peer group median when expressed as \$/ICP but above the peer group median when expressed as \$/km. Annual average operating expenditure per ICP equals the peer group third quartile. Annual average capital expenditure per km falls between the peer group median and third quartile. These values will reflect the relatively high levels of operating expenditure on the network and the lower levels of capital expenditure since 2011.

Westpower’s most recent (2016) AMP indicates a decline in capital expenditure after 2021 with an increase in 2026, while opex remains relatively stable across the AMP forecast period.

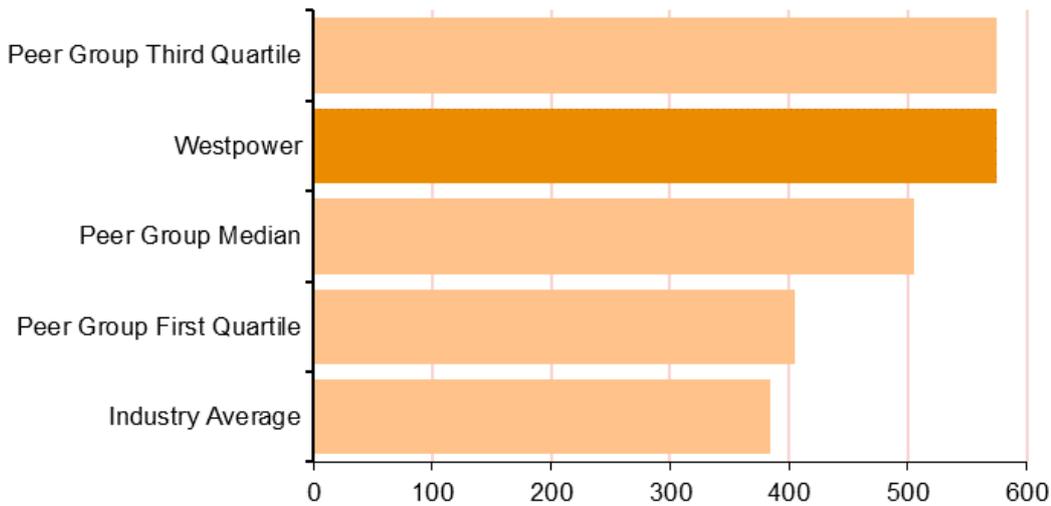
**Annual Average Total Cash Expenditure
2006-2015 (\$/ICP)**



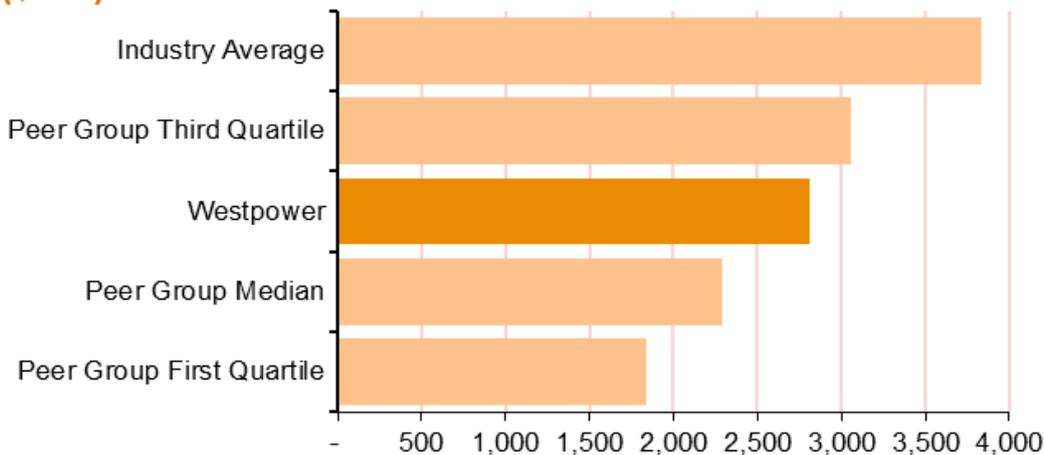
**Annual Average Total Cash Expenditure
2006-2015 (\$/km)**



**Annual Average Opex 2006 - 2015
(\$/ICP)**



**Annual Average Capital Expenditure 2006-2015
(\$/km)**

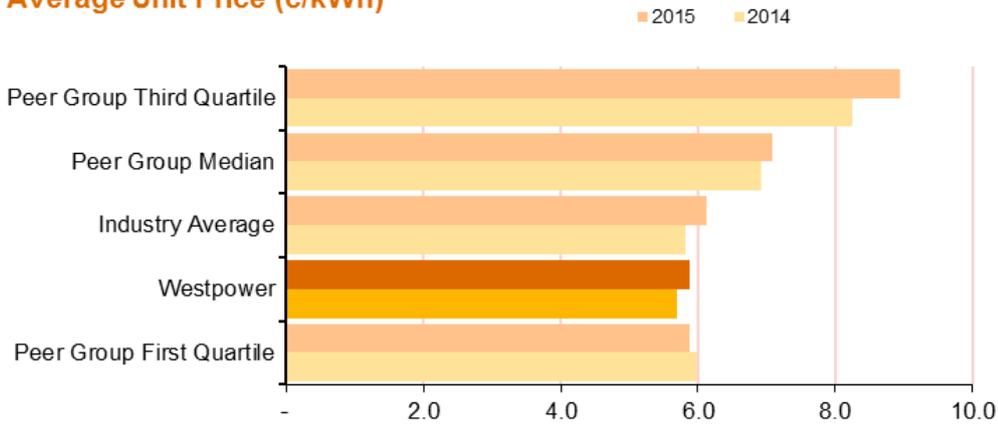


5.1.8. Prices

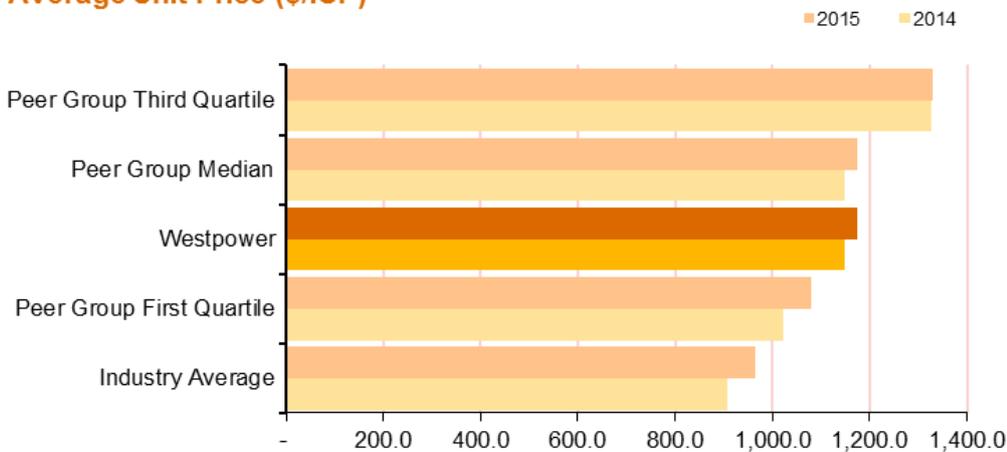
Average unit revenues are the best benchmark available when comparing EDB prices. Our assessment of prices is based on disclosed charges per kWh and per ICP with an adjustment to remove the effect of an estimated unit charge from Transpower. This obtains a distribution-only price that is not affected by the incidence of transmission charges or avoided transmission charges.

On this basis, average unit revenues for Westpower are the lowest of the peer group in 2014 and the third lowest in 2015 (before the deduction of the discretionary discounts and rebates made by some trust owned EDBs). Typically the networks which report lower average unit prices service very large industrial consumers which impacts on this variable.

Average Unit Price (c/kWh)

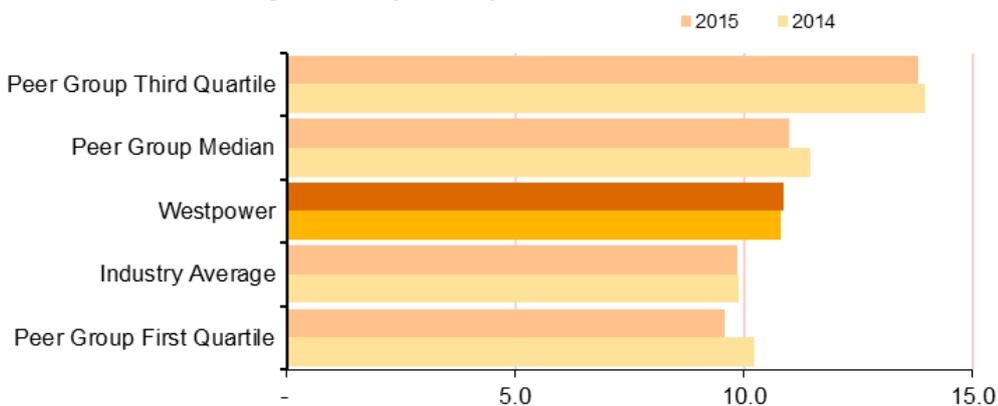


Average Unit Price (\$/ICP)



A more comparable metric is the average unit price to residential consumers (as reported to the Ministry of Business, Innovation and Employment), adjusted for our estimate of average transmission charges. Westpower reports average domestic unit prices in 2014 and 2015 below the group median but above the industry average. It seems Westpower has maintained relatively low prices to residential consumers when compared to its peer group, despite the exit of large customers from the network in recent years.

Domestic Electricity Prices (c/kWh)



Relative prices (and the level of profit generated from each customer group) are indicators of allocative efficiency. Without detailed cost of supply analysis for each customer group it is not possible to draw conclusions on the degree of allocative efficiency inherent in Westpower's prices.

5.1.9. Profits

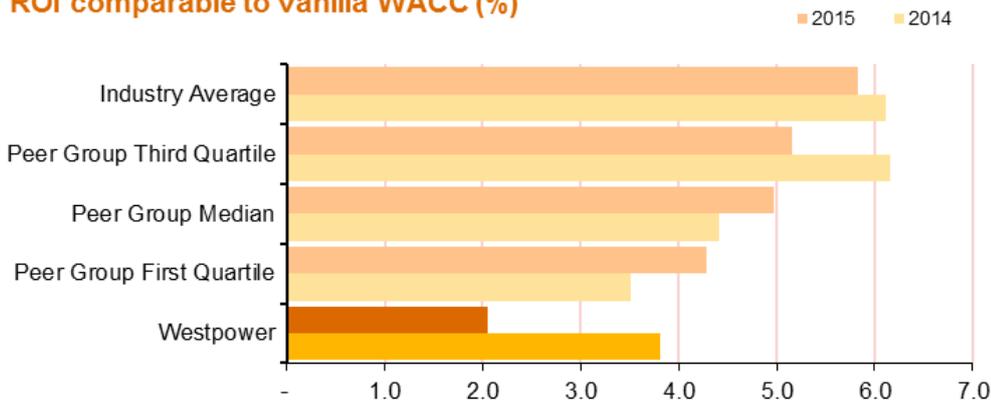
The most common indicator of profit is ROI. In 2015 a series of new ROI disclosure requirements were implemented and EDBs now disclose several ROI metrics. We consider the most appropriate measure is ROI that is comparable to a vanilla WACC reflecting all revenues earned. Westpower's ROI was the lowest of the peer group (and the industry) in 2015 and sixth in the peer group in 2014.

After adjusting for the discretionary discounts paid by some EDBs (and deducting them from profit), Westpower's adjusted ROI falls to 2.0% in 2014 and 0.3% in 2015, showing a strong focus on returning profits to shareholders by way of discretionary discounts. The reduction in ROI in 2015 is due to increased opex as a result of the response to Cyclone Ita (we understand this event increased Westpower's opex by ~\$1m).

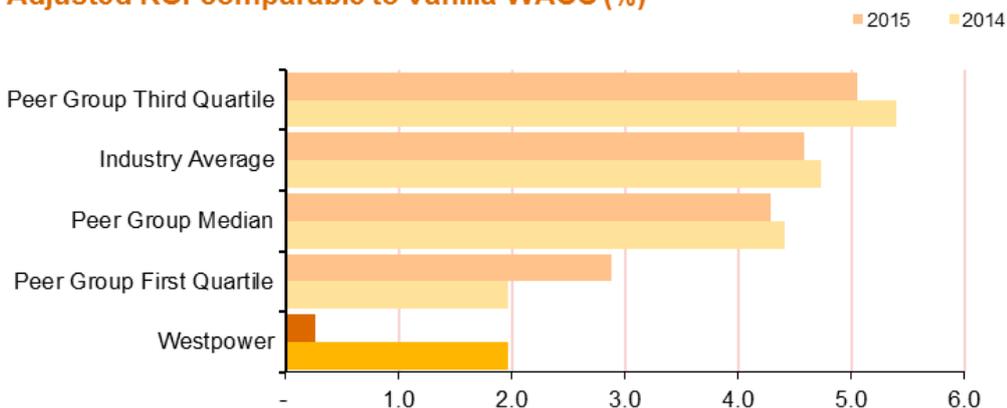
The analysis presented throughout this section suggests that the main factors contributing to Westpower's relatively low profit are:

- Comparatively low prices
- Comparatively high or average levels of network opex and system operations opex
- A comparatively high asset value.

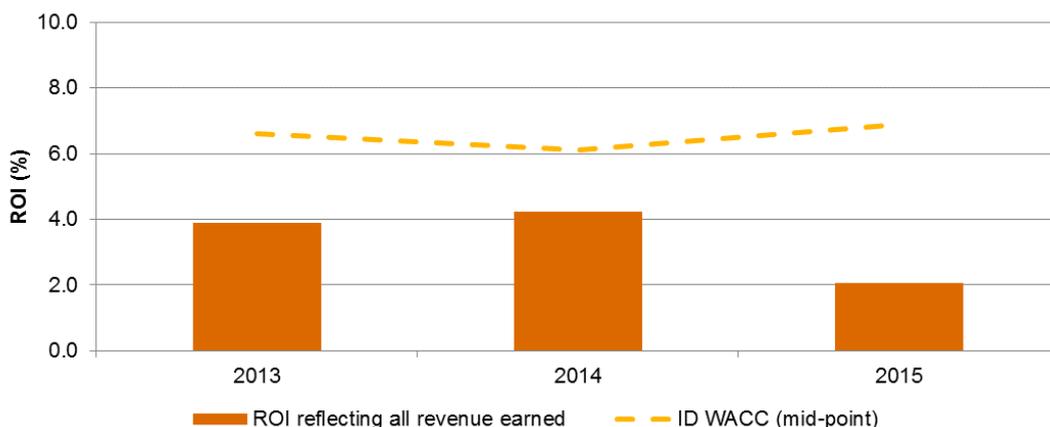
ROI comparable to vanilla WACC (%)



Adjusted ROI comparable to vanilla WACC (%)



The chart below shows Westpower's reported ROI for 2013-2015 (not adjusted for discounts), compared to the regulatory information disclosure WACC benchmark (75th percentile estimate). Westpower consistently demonstrates a margin between its ROI and the benchmark disclosure WACC.



5.2. Conclusion on Peer Group Comparisons

Overall Westpower performs well relative to its peer group in most areas we have considered. Where results appear less favourable there is generally a sound rationale for the outcomes we have identified. Westpower's network is currently experiencing low growth but is seeking to improve reliability of supply while keeping prices low for its customer base.

Westpower's reliability is generally unfavourable compared to the peer group in 2015, reflecting the impact of the major storm event in that year. However, in 2014 Westpower's reliability is generally better than that of the peer group. Further reliability improvements should be expected as a result of the investments in recent years.

Westpower's network and network support opex is relatively high compared to the peer group, but its business support opex is relatively low. The low business support opex is a good outcome as Westpower's small size means it will have less scope to achieve economies of scale than other networks. This may reflect different cost allocations within the Westpower Group between ElectroNet and Westpower. Westpower also has a current focus on finding operating cost efficiencies.

Westpower's capex is currently low and notably lower than at the time of the last review, reflecting the exit of some large customers and modest current growth on the network. Westpower's capex is mainly focused on asset replacement and renewal.

Westpower compares well to its peer group in terms of price, which it has kept low even before discounts to customers. This has driven low profitability metrics, particularly when distributions to consumers are taken into account, but this reflects decisions regarding the relative merits of prices to customers and distributions to shareholders (who are the broadly the same people). Westpower's return on investment has consistently been lower than the Commission's information disclosure benchmark.

6. *ElectroNet group performance*

6.1. *Overview*

The ElectroNet group of companies is 100% owned by Westpower. They include ElectroNet Services Limited and its two subsidiaries Mitton ElectroNet Limited and ElectroNet Transmission Limited.

Mitton ElectroNet Limited was established in April 2007 following the acquisition of Mitton Consulting Limited. ElectroNet Transmission Limited was established in April 2008 following the acquisition of ABB New Zealand's West Coast, Nelson and Marlborough businesses. These two acquisitions strengthened and diversified the company's operation both geographically and operationally. Since that time ElectroNet has continued to expand, opening a new office in Christchurch and supplying services in Australia and the Pacific Islands. It has also provided services to Chorus in installing fibre within the West Coast region.

ElectroNet group generates revenue from contracting and consultancy services across the electricity value chain including generation, transmission, distribution, retail and customer services.

At the last review we noted that the ElectroNet group employed over 200 staff. We understand ElectroNet has now grown to approximately 260 staff, reflecting ongoing growth in the contracting business.

It is not possible to benchmark ElectroNet's performance against similar businesses due to a lack of publicly available information for comparable companies.

Westpower's SCI records the company's strategic objectives associated with the contracting business:

- to run profitable businesses providing sustainable returns for the benefit of all West Coast consumers;
- to continue to grow capacity and capability in our subsidiary businesses to ensure that our critical mass will continue to be sufficient to provide an efficient workforce for the electricity network;
- to provide opportunities for young West Coasters to become involved in specialist skill areas and to serve their communities into the future.

6.2. *Financial performance*

ElectroNet is highly profitable and revenues have increased over the last five years, albeit with some variability in the trend, reflecting growing demand for services.

As ElectroNet operates in a competitive market, we do not provide detailed financial information relating to its performance. However, below we show ElectroNet's return on investment for each year of the review period. ElectroNet's returns have fluctuated over the review period and there seems to be a pattern of higher returns in 2011 and 2013 and lower (although still very positive) returns in the other years.

We note that ROIs for contracting businesses tend to be high as they have relatively low asset values. An EBITDA margin metric may be more informative.

ElectroNet (group) – Return on Investment 2011-2015

ElectroNet	2011	2012	2013	2014	2015
Pre-Tax ROI	40%	31%	39%	27%	31%

Source: Westpower

6.3. *Financial position*

ElectroNet has a low level of fixed assets, mainly reflecting work vehicles as well as office equipment.

The low level of investment in fixed assets suggests low barriers to entry, which may expose the group to competitive threats and ultimately limit its profitability. However, being part of a broader group that is active

both in distribution and in generation enables ElectroNet to leverage its parent’s reputation and build critical mass around a strong core client. As the majority of ElectroNet’s revenue comes from supply to third parties, it has clearly managed to build a strong reputation in the market and now supplies a range of clients, including in the telecommunications sector and overseas.

6.4. Performance against SCI targets

ElectroNet’s SCI target relates to ensuring that a high proportion of contracting revenues are sourced from contracts with firms other than Westpower.

ElectroNet has greatly exceeded this target in every year of the review period. ElectroNet has been so successful in this regard that it may now be sensible to consider reviewing the target.

ElectroNet (group) – Performance against contracting revenues target

Proportion of contracting revenues from group external parties					
	2011	2012	2013	2014	2015
Target	> 30%	> 30%	> 30%	> 30%	> 30%
Actual	71%	67%	68%	71%	78%
	✓	✓	✓	✓	✓

Source: Westpower

We also note the generally improving trend in lost-time injury frequency rate, which is for Westpower Group, but this will largely relate to the contracting business. This reflects an increased focus by directors and management in making improvements to health and safety across the business.

Westpower (group) – Performance against SCI LTIFR target

Lost time injury frequency rate					
	2011	2012	2013	2014	2015
Target	-	-	-	-	-
Actual	7	17	5	12	2
	X	X	X	X	X

Source: Westpower

Other performance targets for the subsidiary business are considered commercially sensitive and are therefore not disclosed in the SCI (or discussed in this review).

6.5. Future prospects

There are a number of growth opportunities for ElectroNet group including:

- Continued transmission contracting as required by Transpower;
- Engineering services in support of these Transpower investments;
- Continuing to develop opportunities in Australia and the Pacific Islands;
- Capitalising on relationships with other EDBs and their capital expenditure programmes;
- Continuing support for fibre rollout and potentially other services for Chorus.

7. Generation Performance

7.1. Overview

Westpower owns 88% of Amethyst Hydro Limited (AHL), a 7.7 MW hydro scheme on the Amethyst River commissioned in June 2013. When commissioned it was expected the scheme would produce 45 GWh of electricity per year. The establishment of AHL was recognised when it won the Innovation in Energy Award at the 2014 Energy Awards, reflecting the technical, commercial and consenting challenges that had to be overcome to commission the scheme.

AHL generates revenue from market sales of electricity and from avoided cost of transmission payments from Westpower, reflecting transmission charges Westpower as an EDB has been able to avoid due to the operation of AHL.

It is not possible to benchmark AHL's performance against similar businesses due to a lack of publicly available information for comparable companies. However, we have considered its performance against SCI targets.

Westpower is considering a further potential investment in a hydro generation plant at Waitaha. The Waitaha scheme has a proposed capacity of 16-20 MW and is expected to produce 110-120 GWh per year. This scheme would be considerably larger than AHL and supply approximately 25% of the West Coast's energy needs. A Department of Conservation decision regarding this scheme is expected shortly.

Westpower's SCI records the company's strategic objectives associated with its generation activities:

- to ensure the safe and efficient operation of the Amethyst River Hydro Electric Power Scheme;
- to continue studies into the feasibility of a Hydro Electric Power Scheme on the Waitaha River, consult with the community on the proposal, and to apply for and gain concessions and consents to enable the scheme to be progressed to construction; and
- to continue to support existing West Coast electricity generation schemes.

7.2. Financial performance

AHL has only been operating since June 2013. Revenues earned in 2015 were only slightly higher than in 2014 but costs were much lower in 2015. We understand that the higher costs it incurred in 2014 reflect initial start-up costs that will not be ongoing.

7.3. Performance against SCI targets

AHL had SCI targets relating to generation availability and capacity in 2015 only.⁴ It exceeded the target regarding generation availability but fell short on the generation capacity target. With only one year of data available, it is not possible to draw firm conclusions on the availability and capacity of the asset, but we understand Westpower management is happy with AHL's performance.

Amethyst Hydro performance against SCI targets 2015

	Generation capacity - 2015	Generation availability - 2015
Target	85%	90%
Actual	79%	99%
	X	✓

Source: Westpower

⁴ Availability refers to the percentage of the time that generation production is available to be injected into the distribution network. Capacity refers to the percentage of the maximum output that is able to be achieved over a twelve month period.

7.4. *Future prospects*

The key growth opportunity for Westpower's generation activities is the potential for the new hydro plant to be established at Waitaha. We understand this plant may have a capital cost similar to the current carrying value of the distribution network. This would therefore be a substantial investment for Westpower and constitute a significant rebalancing of the company towards generation investments.

We also note that there may be other opportunities for Westpower to invest in alternative hydro assets in the West Coast region if the circumstances were right.

We note that a substantial portion of the revenues received by AHL (as for other distributed generation plant around New Zealand) is comprised of ACOT payments. ACOT payments are required as part of the pricing principles set out in Schedule 6.4 of the Electricity Industry Participation Code 2010. The Electricity Authority has reached a view that the ACOT payments are in general not justified and has recently proposed to remove Schedule 6.4 of the Code. The review of ACOT payments is ongoing but it now seems more likely than not that ACOT payments will cease. This is a relevant factor when assessing the future prospects of AHL and any new generation venture on Westpower's network.

8. Ownership structure

8.1. Overview

Consistent with Clause 4 of the WCEPT Trust Deed, this ownership review includes a discussion of the advantages and disadvantages of Trust ownership and an analysis of alternative ownership options.

Since the last ownership review in 2011, there have been several significant changes in Westpower and the West Coast industry operating environment. These include:

- The commissioning of AHL in June 2013 and the ongoing progress towards the development of Waitaha generation scheme
- The continued growth of the contracting business, including into international markets and the fixed-line telecommunications sector
- The implementation of Part 4 of the Commerce Act, including the introduction of detailed information disclosure requirements that Westpower must meet
- Reforms to electricity industry regulation, including proposed changes to the allocation of Transpower charges and moves to reform industry contracts and pricing structures.

As a consequence of these changes, Westpower has grown in size and in complexity, while the relative balance of revenues and profits has shifted from the network business to the contracting and generation activities. In undertaking our analysis of the ownership options available to WCEPT we have considered the implications of these changes.

There are a number of different ownership options available including the existing 100% Trust ownership model, partial divestment or dilution options, and full divestment. For the purposes of this report we have examined the advantages and disadvantages of the following options:

- 100% consumer Trust ownership
- Joint venture, including for a subsidiary of Westpower only
- Merger through equity exchange
- Distribution of 24.9% or 49.9% of Shares to Beneficiaries
- Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors
- Distribution of 100% of Shares to Beneficiaries
- Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors.

8.2. Company objectives

The current SCI covers the three year period to 31 March 2018 and includes the mission for the Company (emphasis added):

*A West Coast Company operating **successful businesses** which provide **first class electrical and technology solutions**, wherever our customers take us.*

The SCI sets out the objectives for the Company, agreed with its shareholders, the WCEPT. These objectives seek to deliver on the mission statement above.

Strategic Objectives	
Safety	<ul style="list-style-type: none"> the Board of Directors will provide active Health and Safety leadership and rigorous monitoring of the Westpower Group Health and Safety Plan.
Electricity Distribution	<ul style="list-style-type: none"> to continue to provide West Coast communities with a safe, secure, sustainable and cost effective electricity distribution network to ensure obligations under the Energy Companies Act 1992, the Electricity Act 1992, the Electricity Industry Reform Act 1998 and their various amendments and regulations are met to continue to lobby on behalf of West Coast consumers to ensure that a reliable transmission network is maintained into the West Coast.
Electrical Contracting and Consultancy	<ul style="list-style-type: none"> to run profitable businesses providing sustainable returns for the benefit of all West Coast consumers to continue to grow capacity and capability in our subsidiary businesses to ensure that our critical mass will continue to be sufficient to provide an efficient workforce for the electricity network to provide opportunities for young West Coasters to become involved in specialist skill areas and to serve their communities into the future.
Electricity Generation	<ul style="list-style-type: none"> to ensure the safe and efficient operation of the Amethyst River Hydro Electric Power Scheme to continue studies into the feasibility of a Hydro Electric Power Scheme on the Waitaha River, consult with the community on the proposal, and to apply for and gain concessions and consents to enable the scheme to be progressed to construction to continue to support existing West Coast electricity generation schemes to support proposed distributed generation through our network connection policies.
Environment	<ul style="list-style-type: none"> to contribute toward environmental sustainability in all operations and protect the environment in the scenic regions in which we operate.
Efficiency	<ul style="list-style-type: none"> we are committed to operating successful businesses which are managed efficiently for the benefit of the community we will strive to minimise operating costs and to manage our financial assets and liabilities in a prudent manner we will encourage the efficient use of energy through a transparent pricing policy designed to provide appropriate signals to generators and retailers.
People	<ul style="list-style-type: none"> our people are the driving force behind these objectives and it is their dedication and commitment that will help us to achieve investment in our people is an investment in the future of our organisation. Maintaining good employee relations will be achieved by continuing to be a fair employer.

These strategic objectives, have been assessed against the two components of the Westpower’s mission (to operate as a successful business and provide first class electrical and technology solutions) as being of primary or secondary importance in achieving the mission. In this context ‘primary’ means that the requirement is fundamental to meeting the mission, and ‘secondary’ means that the requirement will also contribute to meeting the mission.

For the purpose of this report we have assessed:

- **successful business** as encompassing capability for growth including ability to fund, acquire necessary skills and make decisions which support growth while meeting shareholders' expectations of returns
- **first class electrical and technology solutions** as encompassing excellence in safety, sustainability, cost efficiency, customer and employee satisfaction, "wherever our customers take us".

Strategic Objectives	Successful businesses	First class electrical and technology solutions
Safety	Secondary	Primary
Electricity Distribution	Primary	Secondary
Electrical Contracting and Consultancy	Primary	Secondary
Electricity Generation	Primary	Secondary
Environment	Secondary	Primary
Efficiency	Secondary	Primary
People	Secondary	Primary

As observed earlier in this report, the Company has worked hard and achieved commendable results over the past five years in diversifying the business and enhancing shareholder value through non-network activities in the face of flat growth in the network business. The Company's activities have generated broader economic benefits for the region. This has been facilitated by the current Trust ownership model which has provided ownership stability, set clear objectives, and supported the Company in its initiatives to improve performance and grow. We now consider to what extent the current ownership structure, and potential alternatives will enable the Company to continue to meet these objectives for the foreseeable future.

8.3. WCEPT trust model

The WCEPT is governed by the Trust Deed which sets out the objectives of the Trust, its obligations to beneficiaries and the manner in which the Trust operates. The WCEPT is required to hold an ownership review once every five years. Trustees are elected by consumers for a four-year term, retiring by rotation and being eligible for re-election. The number of candidates standing for election has typically exceeded the number of positions.

Limited access to external expertise is a key limiting factor of the trust model. The effectiveness of the model is also dependent on attracting sufficient candidates with appropriate expertise to represent the beneficiaries and fulfil their governance responsibilities.

We note that any move to appointing, rather than electing, Trustees would risk Westpower ceasing to be exempt from price-quality control under Part 4 of the Commerce Act 1986.

8.4. Ownership options

There are a number of different ownership options available including the existing 100% Trust ownership model, partial divestment or dilution options, and full divestment. For the purposes of this report we have examined the advantages and disadvantages of the following options, which represent a range of options which fall across the spectrum:

100% Consumer Trust Ownership	Trust ownership is very common among New Zealand EDBs, with 21 of 29 companies having some trust ownership. WCEPT holds the shares of Westpower on behalf of current and future consumers, and the consumers of the day are the beneficiaries of the Trust.
Joint venture	In order to achieve growth objectives Joint Ventures are a means of entering into new business relationships with other parties for some of the business

	activities of an entity, while retaining some of the existing ownership structure. This could be pursued for one or more subsidiaries only while full ownership is retained for the Westpower parent company.
Merger through equity exchange	Mergers with like businesses, such as other EDBs, are most readily executed by way of equity exchange, thus in effect diluting the existing trust ownership, but achieving an interest in a larger entity and potentially realising operational synergies and scale benefits.
Distribution of 24.9% or 49.9% of Shares to Beneficiaries	Distribution of 24.9% allows the Trust to retain control over the Company's constitution, and distribution of 49.9% allows the Trust to retain outright control. In practice a distribution (share give-away) would result in some beneficiaries selling their shares to external investors.
Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors	Sale of 24.9% allows the Trust to retain control over the Company's constitution, and sale of 49.9% allows the Trust to retain outright control. Shares may be listed.
Distribution of 100% of Shares to Beneficiaries	The full distribution (give-away) option would mean that the Trust would cease to exist. Historical practice has been for a significant proportion of beneficiaries to sell their shares to external investors.
Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors	The full sale option would require the Trust to determine whether to retain the proceeds of the sale to invest and manage on behalf of its existing and future beneficiaries, or to distribute the proceeds to the beneficiaries.

The ownership thresholds adopted above reflect the following control characteristics:

100%	Absolute control and unfettered access to cash flows
75.1%	Ability to pass resolutions requiring a special majority
50.1%	Ability to pass resolutions requiring an ordinary majority
25.1%	Often referred to as negative control – the ability to block special resolutions
10.1%	Ability to prevent compulsory acquisition of minority shareholdings

8.5. Assessment of options

There is a broad range of factors to consider when deciding on the best ownership model for Westpower. Trust ownership is the predominant model for EDBs in New Zealand. While this ownership model has served Westpower well to date, it is now time to consider whether this is appropriate for the future.

In the table below we summarise the advantages and disadvantages of each of the ownership options considered, against the two key objectives for the Company as set out in the 2011 SCI.

Ownership option	Successful businesses	First class electrical and technology solutions
100% Trust	Limited capacity for growth in the long term due to inability to inject equity or lend debt. Willingness to invest depends on Trust's risk appetite, which may change over time via the Trustee election process. At present Westpower has a low level of debt and is able to fund further investments.	Trust likely to support investments in improvements in service capability for the benefits of local consumers.
Joint Venture	Provides mechanism to expand into new businesses while accessing additional expertise	Access to external knowledge may enhance service provision and provide access to economies of scale and scope,

Ownership option	Successful businesses	First class electrical and technology solutions
		while retaining local influence in objective setting It would be necessary to find a suitable partner for the venture
Merger Through Equity Exchange	Provides mechanism to expand core or like businesses, and economies of scope/scale can enhance shareholder returns from core business. This would reduce WCEPT's control of the business but may increase returns as it would now own a portion of a larger entity.	As for JVs, access to external knowledge and economies of scale and scope can enhance performance beyond that available under the Status Quo.
Distribution of 24.9% or 49.9%	If consumers on-sell shares then provides a source of funds for the local community, while retaining local control.	Trust support for performance excellence likely to continue, to be balanced against needs of other shareholders who may have different objectives. Unlikely source of additional external skills and expertise.
Sale of 24.9% or 49.9%	Provides access to some additional capital to fund growth, while retaining control with local consumers. Funds not tied to an existing opportunity (such as in respect of JVs or mergers).	As for the distribution option, the Trust influence is important, however other shareholders will have objectives that must be met, which may not be consistent with those of local consumers. Access to additional expertise would depend on nature of investor(s).
Distribution of 100%	Access to capital dependent on whether beneficiaries on sell shares. No immediate access to funds.	Shareholders would need to manage potential conflicts between returns and performance excellence. Potential loss of consumer influence could compromise the performance excellence objective. Limited access to expertise.
Sale of 100%	Raises immediate capital to fund growth. Broad growth opportunities available.	As for the 100% distribution option, loss of local consumer control. Access to additional expertise would depend on nature of investor(s).

Successful business

Under the 100% Trust model, Westpower has achieved growth and increased shareholder value to date. It has achieved this through acquisitions, organic growth of existing and new business activities; while meeting shareholder return and dividend expectations. It has achieved this while having only a low level of debt, leaving scope for further investments within the current ownership structure. However, we note external sources of borrowings are not unlimited and this may become significant for Westpower at a later date. Each investment which requires external debt funding reduces the capacity of the Company to fund future investment opportunities. Alternatively the Company could sell existing assets (in order to fund new investments), adopt a different ownership model or divert cash flows to debt reduction in the short term. This may involve reduction in consumer discounts.

It is useful to consider funding options available to facilitate expansion in a hierarchy, as follows:

- Senior debt is usually the option which is most readily available and easy to implement commensurate with the Company's risk profile. Ratings of BBB+ or BBB are typical for infrastructure companies. The cost of debt steps up below this investment grade.

-
- Once senior debt capacity is exhausted, the Company is able to consider deferring or reducing dividends and/or selling non-core assets to fund additional investment. This will depend on the expectations of shareholders, and the asset portfolio of the business.
 - Subordinated debt provides an additional tier of funds from the wholesale or retail markets, the capacity of which is usually determined by debt covenants such as FFO and interest cover ratios. As subordinated debt ranks behind senior debt, the cost of debt will be higher.
 - Equity from the owner is usually the next source which may be sought, although not always available.
 - Third party equity is the final potential source. It may involve external equity into Westpower, which would dilute the Trust's shareholding in the Company. As noted above, this could involve a more limited model where external equity is applied to the new investment, the Trust maintains its 100% shareholding in Westpower, and Westpower has partial ownership of the new business venture.

We recommend consideration be given to these options for funding future growth, when considering possible ownership options.

Joint venture and merger options provide access to growth opportunities by diluting the Company's ownership in new and (possibly) existing businesses. These opportunities may help the Company achieve the Trust's dividend and value expectations, for example by increasing access to unregulated revenue streams, without causing the Company to exceed its long term prudent borrowing capacity or resorting to higher cost debt sources.

Distribution and sale options can provide access to the capital required to fund growth, but these result in diluted or loss of control and influence over existing assets and may not provide access to additional expertise relevant to those assets.

First class electrical and technology solutions

This objective can be achieved in the core business (ie: existing activities) via continued focus on safety, efficiency, environment and people. Under the current 100% Trust ownership model access to innovation and investment comes through incremental growth opportunities which provide scale and expertise, or via revenue (ie: investments in opex and capex improvements funded through prices and sales). Westpower's commendable reliability and performance improvements to date have been developed via this model.

A joint venture or merger provides enhanced access to first class service provision. A joint venture allows the Company to step into new business opportunities which may enhance performance in existing businesses through economies of scope and scale. Under a joint venture, the Trust is able to maintain its 100% ownership of the core business, while entering into new business ventures in partnership.

A merger provides similar opportunities for first class service provision, although under a merger with a like business it may also provide access to additional economies of scale in core business activities. The Trust may relinquish its 100% ownership of the core business under this model, and its level of control will depend on the nature of the merger.

The first class service provision objective under the distribution and sale options will depend on the ultimate shareholders, the degree of sell down and the ability of the Trust to continue to influence the Company's objectives. The Trust may have some influence on the identity of the new shareholders in the short term, but this will reduce in the longer term after the initial transaction(s).

8.6. Conclusions

The consumer trust ownership model is common in New Zealand. Of the 29 EDBs, 21 include some component of trust ownership. There are a number of different ownership options available including the existing 100% Trust ownership model, partial divestment or dilution options, and full divestment.

The key advantages of retaining 100% WCEPT ownership are the ability for the Trust to influence the financial and non financial performance of Westpower, the simplicity of the structure and the ability to act in the role of custodian for existing and future generations of consumers. There appears to be a real benefit to Trust ownership in achieving these objectives.

Limited access to external expertise is a key limiting factor of the trust model. The effectiveness of the model is also dependent on attracting sufficient candidates with appropriate expertise to represent the beneficiaries and fulfil their governance responsibilities.

Our performance benchmarking indicates that Westpower is performing well relative to its Peers in most areas, and there is no evidence that Trust ownership has had a negative impact on the Company's operating and financial efficiency, or is likely to in the future, as long as the Trust maintains a keen interest in Company matters.

The existing Trust structure has served Westpower well to date. At some point in the future this structure could impose limitations on Westpower's ability to grow. This is now more likely than in the past as the Company will need to increase borrowing if it chooses to invest in the Waitaha hydro scheme or other generation activities. As the Company grows at some point it may be unable to take advantage of future opportunities for growth without considering alternative ownership structures or divesting some of the existing non-core assets.

9. Conclusions

Overall there are a broad range of factors to consider when deciding on the best ownership model for Westpower. Trust ownership is the predominant model for EDBs in New Zealand. The model is strongly supported by the current Trustees and also by the Company, who view local ownership and control as having key strategic value for the region as it:

- allows the Company to focus on performance and growth;
- enables the benefit of consumer ownership to be passed directly to consumers via lower lines charges, because the Trust is willing to target lower returns;
- ensures the presence of a high value industry and employer in the region; and
- delivers a sense of pride for the community.

A key advantage of other ownership models is the potential to provide additional capital to support growth and investment. While this is acknowledged by the Trust and the Company, the current focus of the strategy is to grow revenue by extending into areas that are naturally complemented by their existing activities and skill base. This strategy is considered prudent and is able to be facilitated within the confines of the current ownership model. While the question of the appropriate ownership model is a matter for the Trust and circumstances change over time, currently we see no compelling reasons to change from the current model.

Appendix A: Restrictions

This report has been prepared for West Coast Electric Power Trust to support the Trust's requirements to carry out an ownership review every five years, consistent with their Trust Deed. This report has been prepared solely for this purpose and should not be relied upon for any other purpose.

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.

Our report has been prepared with care and diligence and the statements and opinions in the report are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. In performing our review, we have relied on the data and information provided by WCEPT and Westpower as being complete and accurate at the time it was given. The views expressed in this report represent our independent consideration and assessment of the information provided.

No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed by us or any of our partners or employees for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

We reserve the right, but are under no obligation, to revise or amend our report if any additional information (particularly as regards the assumptions we have relied upon) which exists at the date of our report, but was not drawn to our attention during its preparation, subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our Engagement Letter dated 21 January 2016.

Appendix B: Benchmarking

Density

Demand Density (kW/km)		
Rank		2015
1	EA Networks	56
2	Network Waitaki	30
3	Marlborough Lines	21
4	Westpower	18
5	Buller Electricity	17
6	The Lines Company	15
7	Eastland Network	14
8	OtagoNet Joint Venture	13
9	Centralines	10
	Industry Average	39
	Industry Median	31
Peer Group		
	Peer Group First Quartile	14
	Peer Group Median	17
	Peer Group Third Quartile	21

Volume Density (MWh/km)		
Rank		2015
1	EA Networks	207
2	Network Waitaki	141
3	Westpower	118
4	Marlborough Lines	111
5	OtagoNet Joint Venture	88
6	Buller Electricity	85
7	The Lines Company	76
8	Eastland Network	71
9	Centralines	54
	Industry Average	188
	Industry Median	168
Peer Group		
	Peer Group First Quartile	76
	Peer Group Median	88
	Peer Group Third Quartile	118

Energy Density (kWh/ICP)		
Rank		2015
1	EA Networks	33,830
2	OtagoNet Joint Venture	27,600
3	Network Waitaki	21,700
4	Westpower	19,992
5	Marlborough Lines	15,251
6	The Lines Company	13,896
7	Centralines	12,418
8	Buller Electricity	11,780
9	Eastland Network	11,024
	Industry Average	16,306
	Industry Median	14,683
Peer Group		
	Peer Group First Quartile	12,418
	Peer Group Median	15,251
	Peer Group Third Quartile	21,700

Capacity Density (kVA/ICP)		
Rank		2015
1	EA Networks	29.3
2	Network Waitaki	15.0
3	OtagoNet Joint Venture	14.9
4	Westpower	13.8
5	Marlborough Lines	13.5
6	Centralines	11.6
7	The Lines Company	10.6
8	Buller Electricity	10.0
9	Eastland Network	9.9
	Industry Average	10.1
	Industry Median	10.8
Peer Group		
	Peer Group First Quartile	10.6
	Peer Group Median	13.5
	Peer Group Third Quartile	14.9

Connection Point Density (ICP/km)		
Rank		2015
1	Marlborough Lines	7.3
2	Buller Electricity	7.2
3	Network Waitaki	6.5
4	Eastland Network	6.4
5	EA Networks	6.1
6	Westpower	5.9
7	The Lines Company	5.4
8	Centralines	4.3
9	OtagoNet Joint Venture	3.2
	Industry Average	12.2
	Industry Median	9.6
Peer Group		
	Peer Group First Quartile	5.4
	Peer Group Median	6.1
	Peer Group Third Quartile	6.5

Growth trends and characteristics

Growth in circuit length 2011-2015 (%)

Rank		2015
1	Centralines	3.1%
2	Netw ork Waitaki	2.9%
3	Eastland Netw ork	2.1%
4	OtagoNet Joint Venture	1.3%
5	Westpow er	1.3%
6	Buller Electricity	0.7%
7	EA Netw orks	0.4%
8	Marlborough Lines	0.2%
9	The Lines Company	-3.4%
	Industry Average	0.8%
	Industry Median	0.7%
Peer Group		
	Peer Group First Quartile	0.4%
	Peer Group Median	1.3%
	Peer Group Third Quartile	2.1%

Growth in ICPs 2011-2015 (%)

Rank		2015
1	EA Netw orks	0.9%
2	Westpow er	0.9%
3	Buller Electricity	0.8%
4	Centralines	0.6%
5	Netw ork Waitaki	0.5%
6	Marlborough Lines	0.4%
7	OtagoNet Joint Venture	0.0%
8	Eastland Netw ork	-0.1%
9	The Lines Company	-0.9%
	Industry Average	0.6%
	Industry Median	0.5%
Peer Group		
	Peer Group First Quartile	0.0%
	Peer Group Median	0.5%
	Peer Group Third Quartile	0.8%

Subtransmission proportion of network (%)

Rank		2015
1	Buller Electricity	17%
2	Eastland Netw ork	16%
3	OtagoNet Joint Venture	15%
4	Westpow er	15%
5	EA Netw orks	13%
6	The Lines Company	12%
7	Marlborough Lines	9%
8	Netw ork Waitaki	9%
9	Centralines	5%
	Industry Average	7%
	Industry Median	8%
Peer Group		
	Peer Group First Quartile	9%
	Peer Group Median	13%
	Peer Group Third Quartile	15%

Growth in energy delivered to ICPs 2011-2015 (%)

Rank		2015
1	Netw ork Waitaki	5.5%
2	EA Netw orks	3.7%
3	The Lines Company	2.4%
4	OtagoNet Joint Venture	1.8%
5	Marlborough Lines	0.8%
6	Eastland Netw ork	-0.2%
7	Buller Electricity	-0.8%
8	Centralines	-1.0%
9	Westpow er	-2.3%
	Industry Average	0.6%
	Industry Median	0.4%
Peer Group		
	Peer Group First Quartile	-0.8%
	Peer Group Median	0.8%
	Peer Group Third Quartile	2.4%

Growth in distribution transformer capacity 2011-2015 (%)

Rank		2015
1	EA Netw orks	2.8%
2	OtagoNet Joint Venture	2.6%
3	Marlborough Lines	1.8%
4	The Lines Company	1.7%
5	Buller Electricity	1.1%
6	Eastland Netw ork	1.0%
7	Westpow er	0.6%
8	Netw ork Waitaki	0.5%
9	Centralines	0.4%
	Industry Average	1.7%
	Industry Median	1.3%
Peer Group		
	Peer Group First Quartile	0.6%
	Peer Group Median	1.1%
	Peer Group Third Quartile	1.8%

Loss ratio

Rank		2015
1	The Lines Company	9.2
2	Centralines	8.9
3	Netw ork Waitaki	6.7
4	Eastland Netw ork	6.7
5	EA Netw orks	6.5
6	Buller Electricity	6.5
7	Westpow er	6.2
8	Marlborough Lines	5.2
9	OtagoNet Joint Venture	4.2
	Industry Average	5.9
	Industry Median	5.6
Peer Group		
	Peer Group First Quartile	6.2
	Peer Group Median	6.5
	Peer Group Third Quartile	6.7

Weighted average remaining life of all assets

Rank		2015
1	Eastland Netw ork	35
2	EA Netw orks	35
3	Marlborough Lines	35
4	Netw ork Waitaki	34
5	The Lines Company	33
6	Westpow er	32
7	Buller Electricity	32
8	Centralines	30
9	OtagoNet Joint Venture	27
	Industry Average	32
	Industry Median	34
Peer Group		
	Peer Group First Quartile	32
	Peer Group Median	33
	Peer Group Third Quartile	35

Reliability**Planned and Unplanned SAIDI
(Class B and Class C)**

Rank		2014
1	EA Netw orks	832
2	OtagoNet Joint Venture	471
3	Eastland Netw ork	285
4	The Lines Company	270
5	Marlborough Lines	246
6	Buller Electricity	172
7	Centralines	163
8	Westpow er	108
9	Netw ork Waitaki	95
	Industry Average	255
	Industry Median	163
Peer Group		
	Peer Group First Quartile	163
	Peer Group Median	246
	Peer Group Third Quartile	285

Rank		2015
1	Buller Electricity	2,747
2	Westpow er	600
3	OtagoNet Joint Venture	356
4	The Lines Company	279
5	Eastland Netw ork	256
6	EA Netw orks	198
7	Centralines	141
8	Marlborough Lines	130
9	Netw ork Waitaki	51
	Industry Average	338
	Industry Median	173
Peer Group		
	Peer Group First Quartile	141
	Peer Group Median	256
	Peer Group Third Quartile	356

Asset value per km (\$)

Rank		2015
1	EA Netw orks	75,149
2	Marlborough Lines	64,345
5	Westpow er	49,754
3	Buller Electricity	44,552
8	The Lines Company	40,926
7	Netw ork Waitaki	38,512
4	OtagoNet Joint Venture	35,360
9	Eastland Netw ork	35,195
6	Centralines	28,117
	Industry Average	5,007
	Industry Median	5,759
Peer Group		
	Peer Group First Quartile	35,360
	Peer Group Median	40,926
	Peer Group Third Quartile	49,754

**Planned and Unplanned SAIF
(Class B and Class C)**

Rank		2014
1	The Lines Company	4.1
2	Centralines	3.3
3	OtagoNet Joint Venture	3.0
4	EA Netw orks	2.9
5	Eastland Netw ork	2.7
6	Westpow er	1.7
7	Marlborough Lines	1.7
8	Netw ork Waitaki	1.6
9	Buller Electricity	1.6
	Industry Average	2.1
	Industry Median	1.8
Peer Group		
	Peer Group First Quartile	1.7
	Peer Group Median	2.7
	Peer Group Third Quartile	3.0

Rank		2015
1	The Lines Company	4.1
2	Eastland Netw ork	4.0
3	Westpow er	3.3
4	OtagoNet Joint Venture	3.3
5	Buller Electricity	3.1
6	Centralines	2.4
7	EA Netw orks	2.1
8	Marlborough Lines	1.4
9	Netw ork Waitaki	1.1
	Industry Average	2.2
	Industry Median	2.0
Peer Group		
	Peer Group First Quartile	2.1
	Peer Group Median	3.1
	Peer Group Third Quartile	3.3

Planned SAIDI (Class B)	
Rank	2014
1	OtagoNet Joint Venture 154.1
2	Buller Electricity 121.3
3	The Lines Company 83.6
4	Centralines 78.9
5	Eastland Netw ork 71.3
6	EA Netw orks 56.7
7	Marlborough Lines 56.7
8	Westpow er 41.3
9	Netw ork Waitaki 7.7
Industry Average 44.0	
Industry Median 34.0	
Peer Group	
Peer Group First Quartile 56.7	
Peer Group Median 71.3	
Peer Group Third Quartile 83.6	

Rank	2015
1	OtagoNet Joint Venture 133.1
2	The Lines Company 75.1
3	EA Netw orks 66.7
4	Buller Electricity 65.3
5	Marlborough Lines 52.0
6	Centralines 51.0
7	Eastland Netw ork 49.2
8	Westpow er 45.2
9	Netw ork Waitaki 12.7
Industry Average 49.5	
Industry Median 45.2	
Peer Group	
Peer Group First Quartile 49.2	
Peer Group Median 52.0	
Peer Group Third Quartile 66.7	

Unplanned SAIFI (Class C)	
Rank	2014
1	The Lines Company 3.67
2	Centralines 2.83
3	EA Netw orks 2.69
4	OtagoNet Joint Venture 2.44
5	Eastland Netw ork 2.25
6	Netw ork Waitaki 1.61
7	Westpow er 1.51
8	Marlborough Lines 1.39
9	Buller Electricity 1.18
-	Industry Average 1.86
-	Industry Median 1.61
Peer Group	
Peer Group First Quartile 1.51	
Peer Group Median 2.25	
Peer Group Third Quartile 2.69	

Unplanned SAIDI (Class C)	
Rank	2014
1	EA Netw orks 775.2
2	OtagoNet Joint Venture 317.3
3	Eastland Netw ork 213.5
4	Marlborough Lines 189.5
5	The Lines Company 186.8
6	Netw ork Waitaki 87.4
7	Centralines 84.1
8	Westpow er 67.0
9	Buller Electricity 50.8
Industry Average 210.8	
Industry Median 103.6	
Peer Group	
Peer Group First Quartile 84.1	
Peer Group Median 186.8	
Peer Group Third Quartile 213.5	

Rank	2015
1	Buller Electricity 2,681.3
2	Westpow er 555.2
3	OtagoNet Joint Venture 222.9
4	Eastland Netw ork 206.6
5	The Lines Company 203.9
6	EA Netw orks 131.5
7	Centralines 90.4
8	Marlborough Lines 77.9
9	Netw ork Waitaki 38.1
Industry Average 288.6	
Industry Median 122.8	
Peer Group	
Peer Group First Quartile 90.4	
Peer Group Median 203.9	
Peer Group Third Quartile 222.9	

Planned SAIFI (Class B)	
Rank	2014
1	OtagoNet Joint Venture 0.58
2	Centralines 0.48
3	The Lines Company 0.46
4	Eastland Netw ork 0.42
5	Buller Electricity 0.41
6	Marlborough Lines 0.26
7	EA Netw orks 0.20
8	Westpow er 0.19
9	Netw ork Waitaki 0.04
Industry Average 0.22	
Industry Median 0.20	
Peer Group	
Peer Group First Quartile 0.20	
Peer Group Median 0.41	
Peer Group Third Quartile 0.46	

Rank		2015
1	The Lines Company	3.64
2	Eastland Network	3.63
3	Westpower	3.15
4	Buller Electricity	2.82
5	OtagoNet Joint Venture	2.77
6	Centralines	2.13
7	EA Networks	1.78
8	Marlborough Lines	1.18
9	Network Waitaki	1.03
	Industry Average	1.98
	Industry Median	1.77
Peer Group		
	Peer Group First Quartile	1.78
	Peer Group Median	2.77
	Peer Group Third Quartile	3.15

Rank		2015
1	OtagoNet Joint Venture	0.50
2	The Lines Company	0.42
3	Eastland Network	0.34
4	Buller Electricity	0.29
5	EA Networks	0.28
6	Centralines	0.27
7	Marlborough Lines	0.23
8	Westpower	0.19
9	Network Waitaki	0.06
	Industry Average	0.26
	Industry Median	0.22
Peer Group		
	Peer Group First Quartile	0.23
	Peer Group Median	0.28
	Peer Group Third Quartile	0.34

Number of Faults per 100 Circuit Km

Rank		2014
1	The Lines Company	31.5
2	Marlborough Lines	22.7
3	OtagoNet Joint Venture	16.8
4	EA Networks	15.5
5	Centralines	14.8
6	Eastland Network	12.1
7	Buller Electricity	11.7
8	Westpower	11.7
9	Network Waitaki	8.7
	Industry Average	13.2
	Industry Median	12.1
Peer Group		
	Peer Group First Quartile	11.7
	Peer Group Median	14.8
	Peer Group Third Quartile	16.8

Rank		2015
1	The Lines Company	33.2
2	Marlborough Lines	15.8
3	Network Waitaki	15.1
4	EA Networks	15.1
5	Buller Electricity	15.0
6	OtagoNet Joint Venture	14.0
7	Westpower	13.7
8	Eastland Network	13.7
9	Centralines	11.4
	Industry Average	13.8
	Industry Median	13.8
Peer Group		
	Peer Group First Quartile	13.7
	Peer Group Median	15.0
	Peer Group Third Quartile	15.1

Expenditure

Operational Expenditure as a Proportion of Asset values (%)		
Rank		2014
1	Buller Electricity	11.8%
2	Centralines	7.9%
3	Westpower	7.1%
4	Eastland Network	6.2%
5	The Lines Company	6.1%
6	Marlborough Lines	5.8%
7	OtagoNet Joint Venture	5.2%
8	Network Waitaki	5.0%
9	EA Networks	3.7%
	Industry Average	5.2%
	Industry Median	6.0%
Peer Group		
	Peer Group First Quartile	5.2%
	Peer Group Median	6.1%
	Peer Group Third Quartile	7.1%

Rank		2015
1	Buller Electricity	10.9%
2	Westpower	8.5%
3	Centralines	6.5%
4	Network Waitaki	6.1%
5	Marlborough Lines	5.7%
6	The Lines Company	5.7%
7	Eastland Network	5.6%
8	EA Networks	4.0%
9	OtagoNet Joint Venture	4.9%
	Industry Average	5.1%
	Industry Median	6.0%
Peer Group		
	Peer Group First Quartile	5.6%
	Peer Group Median	5.7%
	Peer Group Third Quartile	6.5%

Network opex as a % of Asset values		
Rank		2014
1	Westpower	4.3%
2	Centralines	4.0%
3	Marlborough Lines	3.2%
4	Buller Electricity	3.1%
5	OtagoNet Joint Venture	2.9%
6	Eastland Network	2.5%
7	Network Waitaki	2.2%
8	The Lines Company	1.8%
9	EA Networks	1.1%
	Industry Average	2.2%
	Industry Median	2.7%
Peer Group		
	Peer Group First Quartile	2.2%
	Peer Group Median	2.9%
	Peer Group Third Quartile	3.2%

Operational Expenditure per Total Circuit Length (\$/km)		
Rank		2014
1	Buller Electricity	5,234
2	Marlborough Lines	3,686
3	Westpower	3,628
4	EA Networks	2,746
5	The Lines Company	2,516
6	Centralines	2,218
7	Eastland Network	2,139
8	Network Waitaki	1,966
9	OtagoNet Joint Venture	1,690
	Industry Average	3,598
	Industry Median	3,246
Peer Group		
	Peer Group First Quartile	2,139
	Peer Group Median	2,516
	Peer Group Third Quartile	3,628

Rank		2015
1	Buller Electricity	4,833
2	Westpower	4,234
3	Marlborough Lines	3,694
4	EA Networks	3,028
5	Network Waitaki	2,357
6	The Lines Company	2,324
7	Eastland Network	1,986
8	Centralines	1,823
9	OtagoNet Joint Venture	1,731
	Industry Average	3,463
	Industry Median	3,275
Peer Group		
	Peer Group First Quartile	1,986
	Peer Group Median	2,357
	Peer Group Third Quartile	3,694

Network opex per Total Circuit Length (\$/km)		
Rank		2014
1	Westpower	2,184
2	Marlborough Lines	2,048
3	Buller Electricity	1,371
4	Centralines	1,117
5	OtagoNet Joint Venture	930
6	Eastland Network	875
7	Network Waitaki	872
8	EA Networks	809
9	The Lines Company	745
	Industry Average	1,452
	Industry Median	1,278
Peer Group		
	Peer Group First Quartile	872
	Peer Group Median	930
	Peer Group Third Quartile	1,371

Rank		2015
1	Westpower	5.0%
2	Buller Electricity	4.7%
3	Centralines	3.0%
4	Marlborough Lines	3.0%
5	Network Waitaki	2.4%
6	Eastland Network	2.3%
7	OtagoNet Joint Venture	2.1%
8	The Lines Company	1.8%
9	EA Networks	1.0%
	Industry Average	2.1%
	Industry Median	2.4%
Peer Group		
	Peer Group First Quartile	2.1%
	Peer Group Median	2.4%
	Peer Group Third Quartile	3.0%

Rank		2015
1	Westpower	2,478
6	Buller Electricity	2,109
8	Marlborough Lines	1,899
3	Network Waitaki	914
2	Centralines	852
9	Eastland Network	809
4	EA Networks	756
7	The Lines Company	749
5	OtagoNet Joint Venture	732
	Industry Average	1,439
	Industry Median	1,084
Peer Group		
	Peer Group First Quartile	756
	Peer Group Median	852
	Peer Group Third Quartile	1,899

Operational Expenditure per Distribution

Rank		2014
1	Buller Electricity	95.5
2	Westpower	54.8
3	Centralines	50.0
4	OtagoNet Joint Venture	47.0
5	The Lines Company	44.9
6	Marlborough Lines	40.0
7	Eastland Network	36.3
8	Network Waitaki	22.0
9	EA Networks	16.0
	Industry Average	34.5
	Industry Median	32.4
Peer Group		
	Peer Group First Quartile	36.3
	Peer Group Median	44.9
	Peer Group Third Quartile	50.0

Network opex per Distribution Transformer

Rank		2014
1	Westpower	26.9
2	Centralines	22.9
3	Marlborough Lines	21.0
4	OtagoNet Joint Venture	20.6
5	Buller Electricity	19.4
6	Eastland Network	12.8
7	The Lines Company	12.8
8	Network Waitaki	9.6
9	EA Networks	4.6
	Industry Average	10.7
	Industry Median	14.2
Peer Group		
	Peer Group First Quartile	12.8
	Peer Group Median	19.4
	Peer Group Third Quartile	21.0

Rank		2015
1	Buller Electricity	86.1
2	Westpower	63.6
3	OtagoNet Joint Venture	45.0
4	The Lines Company	41.9
5	Centralines	40.3
6	Marlborough Lines	39.8
7	Eastland Network	36.3
8	Network Waitaki	24.7
9	EA Networks	17.3
	Industry Average	33.3
	Industry Median	29.6
Peer Group		
	Peer Group First Quartile	36.3
	Peer Group Median	40.3
	Peer Group Third Quartile	45.0

Rank		2015
1	Westpower	30.4
2	Buller Electricity	29.4
3	Marlborough Lines	19.3
4	Centralines	17.0
5	OtagoNet Joint Venture	15.4
6	The Lines Company	13.0
7	Eastland Network	12.7
8	Network Waitaki	9.4
9	EA Networks	4.2
	Industry Average	10.6
	Industry Median	12.9
Peer Group		
	Peer Group First Quartile	12.7
	Peer Group Median	15.4
	Peer Group Third Quartile	19.3

Business Support and System Operations and Network Support Expenditure per Total Circuit Length (\$/km)

Rank		2014
1	Buller Electricity	452
2	The Lines Company	210
3	Centralines	202
4	OtagoNet Joint Venture	202
5	EA Networks	161
6	Marlborough Lines	140
7	Eastland Network	131
8	Westpower	127
9	Network Waitaki	60
	Industry Average	86
	Industry Median	112
Peer Group		
	Peer Group First Quartile	131
	Peer Group Median	161
	Peer Group Third Quartile	202

Rank		2015
1	Buller Electricity	356
2	The Lines Company	202
3	EA Networks	191
4	Centralines	189
5	Marlborough Lines	149
6	Westpower	130
7	Eastland Network	120
8	OtagoNet Joint Venture	109
9	Network Waitaki	83
	Industry Average	87
	Industry Median	120
Peer Group		
	Peer Group First Quartile	120
	Peer Group Median	149
	Peer Group Third Quartile	191

Total Cash Expenditure per Total Circuit Length (\$/km)

Rank		2014
1	EA Networks	8,134
2	Buller Electricity	7,959
3	Marlborough Lines	7,464
4	The Lines Company	4,733
5	Westpower	4,713
6	Network Waitaki	3,925
7	Centralines	3,388
8	OtagoNet Joint Venture	3,778
9	Eastland Network	3,460
	Industry Average	8,018
	Industry Median	6,354
Peer Group		
	Peer Group First Quartile	3,778
	Peer Group Median	4,713
	Peer Group Third Quartile	7,464

Business Support and System Operations and Network Support Expenditure per Distribution Transformer Capacity(\$/kVA)

Rank		2014
1	The Lines Company	10.3
2	Buller Electricity	8.6
3	Westpower	8.6
4	Network Waitaki	7.8
5	Marlborough Lines	6.3
6	EA Networks	5.5
7	Eastland Network	5.2
8	Centralines	4.8
9	OtagoNet Joint Venture	2.3
	Industry Average	6.2
	Industry Median	6.9
Peer Group		
	Peer Group First Quartile	5.2
	Peer Group Median	6.3
	Peer Group Third Quartile	8.6

Rank		2015
1	OtagoNet Joint Venture	13.7
2	Westpower	12.2
3	Network Waitaki	9.3
4	The Lines Company	8.2
5	Marlborough Lines	7.2
6	Eastland Network	6.4
7	EA Networks	6.2
8	Centralines	3.0
9	Buller Electricity	2.3
	Industry Average	6.0
	Industry Median	7.2
Peer Group		
	Peer Group First Quartile	6.2
	Peer Group Median	7.2
	Peer Group Third Quartile	9.3

Capital Expenditure per Total Circuit Length (\$/km)

Rank		2014
1	EA Networks	5,388
2	Marlborough Lines	3,777
3	Buller Electricity	2,724
4	The Lines Company	2,217
5	OtagoNet Joint Venture	2,088
6	Network Waitaki	1,959
7	Eastland Network	1,320
8	Centralines	1,170
9	Westpower	1,086
	Industry Average	4,551
	Industry Median	3,441
Peer Group		
	Peer Group First Quartile	1,320
	Peer Group Median	2,088
	Peer Group Third Quartile	2,724

Rank		2015
1	EA Networks	7,737
2	Buller Electricity	7,480
3	Marlborough Lines	7,279
4	Eastland Network	6,805
5	Network Waitaki	5,750
6	Westpower	5,158
7	The Lines Company	4,812
8	OtagoNet Joint Venture	4,192
9	Centralines	3,030
Industry Average		8,109
Industry Median		6,232
Peer Group		
Peer Group First Quartile		4,812
Peer Group Median		5,750
Peer Group Third Quartile		7,279

Rank		2015
1	Eastland Network	4,819
2	EA Networks	4,709
3	Marlborough Lines	3,586
4	Network Waitaki	3,392
5	Buller Electricity	2,644
6	The Lines Company	2,488
7	OtagoNet Joint Venture	2,462
8	Centralines	1,207
9	Westpower	924
Industry Average		4,666
Industry Median		3,544
Peer Group		
Peer Group First Quartile		2,462
Peer Group Median		2,644
Peer Group Third Quartile		3,586

Total Cash Expenditure per Distribution Transformer Capacity (\$/kVA)

Rank		2014
1	Buller Electricity	112.9
2	OtagoNet Joint Venture	83.6
3	The Lines Company	81.1
4	Marlborough Lines	76.5
5	Centralines	69.4
6	Westpower	58.0
7	Eastland Network	50.6
8	EA Networks	46.3
9	Network Waitaki	43.2
Industry Average		59.3
Industry Median		70.6
Peer Group		
Peer Group First Quartile		50.6
Peer Group Median		69.4
Peer Group Third Quartile		81.1

Total Cash Expenditure (\$/ICP)

Rank		2014
1	EA Networks	1,345
2	OtagoNet Joint Venture	1,162
3	Buller Electricity	1,105
4	Marlborough Lines	1,026
5	The Lines Company	853
6	Westpower	804
7	Centralines	788
8	Network Waitaki	617
9	Eastland Network	496
Industry Average		590
Industry Median		756
Peer Group		
Peer Group First Quartile		788
Peer Group Median		853
Peer Group Third Quartile		1,105

Rank		2015
1	Eastland Network	585.0
2	Marlborough Lines	251.9
3	EA Networks	93.4
4	Network Waitaki	59.0
5	OtagoNet Joint Venture	58.3
6	Westpower	53.0
7	The Lines Company	38.6
8	Centralines	32.0
9	Buller Electricity	19.0
Industry Average		59.5
Industry Median		74.1
Peer Group		
Peer Group First Quartile		38.6
Peer Group Median		58.3
Peer Group Third Quartile		93.4

Rank		2015
1	OtagoNet Joint Venture	1,313
2	EA Networks	1,265
3	Eastland Network	1,060
4	Buller Electricity	1,040
5	Marlborough Lines	997
6	The Lines Company	883
7	Network Waitaki	883
8	Westpower	875
9	Centralines	698
Industry Average		599
Industry Median		801
Peer Group		
Peer Group First Quartile		940
Peer Group Median		1,040
Peer Group Third Quartile		1,162

Business Support and System Operations and		
Rank		2014
1	EA Networks	159.6
2	Westpower	119.3
3	Network Waitaki	111.9
4	The Lines Company	108.7
5	Marlborough Lines	84.8
6	Buller Electricity	84.4
7	Centralines	54.3
8	Eastland Network	50.8
9	OtagoNet Joint Venture	32.1
	Industry Average	61.8
	Industry Median	74.0
	Peer Group	
	Peer Group First Quartile	54.3
	Peer Group Median	84.8
	Peer Group Third Quartile	111.9

Rank		2015
1	OtagoNet Joint Venture	203.5
2	EA Networks	181.1
3	Westpower	168.1
4	Network Waitaki	138.7
5	Marlborough Lines	96.7
6	The Lines Company	86.7
7	Eastland Network	63.4
8	Centralines	34.4
9	Buller Electricity	23.2
	Industry Average	60.7
	Industry Median	77.6
	Peer Group	
	Peer Group First Quartile	63.4
	Peer Group Median	96.7
	Peer Group Third Quartile	168.1

Annual Average Capital Expenditure (2006-2016)		
Rank		\$/km
1	EA Networks	5,459
2	Marlborough Lines	3,921
3	Network Waitaki	3,057
4	Westpower	2,809
5	Buller Electricity	2,290
6	The Lines Company	1,845
7	OtagoNet Joint Venture	1,834
8	Centralines	1,807
9	Eastland Network	1,737
	Industry Average	3,832
	Industry Median	3,057
	Peer Group	
	Peer Group First Quartile	1,834
	Peer Group Median	2,290
	Peer Group Third Quartile	3,057

Capital Expenditure as a Proportion of Asset		
Rank		2014
1	EA Networks	7.3%
2	OtagoNet Joint Venture	6.4%
3	Buller Electricity	6.2%
4	Marlborough Lines	5.9%
5	The Lines Company	5.4%
6	Network Waitaki	5.0%
7	Centralines	4.2%
8	Eastland Network	3.8%
9	Westpower	2.1%
	Industry Average	6.8%
	Industry Median	7.1%
	Peer Group	
	Peer Group First Quartile	4.2%
	Peer Group Median	5.4%
	Peer Group Third Quartile	6.2%

Rank		2015
1	Eastland Network	13.7%
2	Network Waitaki	8.8%
3	OtagoNet Joint Venture	7.0%
4	EA Networks	6.3%
5	The Lines Company	6.1%
6	Buller Electricity	5.9%
7	Marlborough Lines	5.6%
8	Centralines	4.3%
9	Westpower	1.9%
	Industry Average	6.9%
	Industry Median	7.9%
	Peer Group	
	Peer Group First Quartile	5.6%
	Peer Group Median	6.1%
	Peer Group Third Quartile	7.0%

Annual Average Total Cash Expenditure (2006-2016)		
Rank		\$/ICP
1	EA Networks	1,454
2	Marlborough Lines	1,186
3	Buller Electricity	1,073
4	OtagoNet Joint Venture	1,058
5	Westpower	1,050
6	Centralines	841
7	Network Waitaki	820
8	The Lines Company	745
9	Eastland Network	585
	Industry Average	750
	Industry Median	707
	Peer Group	
	Peer Group First Quartile	820
	Peer Group Median	1,050
	Peer Group Third Quartile	1,073

Annual Average Opex		
Rank	\$/ICP	
1	Buller Electricity	756
2	Marlborough Lines	639
3	Westpower	575
4	EA Networks	530
5	OtagoNet Joint Venture	505
6	Centralines	443
7	The Lines Company	405
8	Network Waitaki	352
9	Eastland Network	328
Industry Average		385
Industry Median		363
Peer Group		
Peer Group First Quartile		405
Peer Group Median		505
Peer Group Third Quartile		575

Price

Domestic Electricity Prices (c/kWh)		
Rank	2014	
1	OtagoNet Joint Venture	18
2	Buller Electricity	14
3	Centralines	14
4	Marlborough Lines	12
5	Westpower	11
6	Eastland Network	11
7	The Lines Company	11
8	Network Waitaki	9
9	EA Networks	7
Industry Average		10
Industry Median		10
Peer Group		
Peer Group First Quartile		11
Peer Group Median		11
Peer Group Third Quartile		14

Domestic Electricity Prices (c/kWh)		
Rank	2015	
1	OtagoNet Joint Venture	18
2	Centralines	15
3	Buller Electricity	13
4	Marlborough Lines	12
5	The Lines Company	11
6	Westpower	11
7	Eastland Network	10
8	Network Waitaki	8
9	EA Networks	7
Industry Average		10
Industry Median		10
Peer Group		
Peer Group First Quartile		10
Peer Group Median		11
Peer Group Third Quartile		13

Average Unit Price (\$/ICP)		
Rank	2014	
1	EA Networks	1,724
2	OtagoNet Joint Venture	1,671
3	Buller Electricity	1,327
4	The Lines Company	1,284
5	Westpower	1,149
6	Network Waitaki	1,144
7	Marlborough Lines	1,023
8	Centralines	1,005
9	Eastland Network	807
Industry Average		907
Industry Median		852
Peer Group		
Peer Group First Quartile		1,023
Peer Group Median		1,149
Peer Group Third Quartile		1,327

Average Unit Price (\$/ICP)		
Rank	2015	
1	OtagoNet Joint Venture	1,835
2	EA Networks	1,760
3	The Lines Company	1,331
4	Buller Electricity	1,288
5	Westpower	1,176
6	Centralines	1,112
7	Marlborough Lines	1,080
8	Network Waitaki	956
9	Eastland Network	842
Industry Average		965
Industry Median		983
Peer Group		
Peer Group First Quartile		1,080
Peer Group Median		1,176
Peer Group Third Quartile		1,331

Average Unit Price (c/kWh)

Rank		2014
1	Buller Electricity	10.4
2	The Lines Company	9.6
3	Centralines	8.3
4	Eastland Network	7.3
5	Marlborough Lines	6.9
6	OtagoNet Joint Venture	6.2
7	Network Waitaki	6.0
8	EA Networks	6.0
9	Westpower	5.7
	Industry Average	5.8
	Industry Median	5.9
Peer Group		
	Peer Group First Quartile	6.0
	Peer Group Median	6.9
	Peer Group Third Quartile	8.3

Rank		2015
1	Buller Electricity	10.9
2	The Lines Company	9.6
3	Centralines	9.0
4	Eastland Network	7.6
5	Marlborough Lines	7.1
6	OtagoNet Joint Venture	6.6
7	Westpower	5.9
8	EA Networks	5.2
9	Network Waitaki	4.4
	Industry Average	6.1
	Industry Median	6.4
Peer Group		
	Peer Group First Quartile	5.9
	Peer Group Median	7.1
	Peer Group Third Quartile	9.0

Profits

ROI comparable to vanilla WACC (%)

Rank		2014
1	OtagoNet Joint Venture	7.7
2	EA Networks	7.4
3	Eastland Network	6.2
4	The Lines Company	5.4
5	Buller Electricity	4.4
6	Westpower	3.8
7	Centralines	3.5
8	Marlborough Lines	3.1
9	Network Waitaki	2.7
	Industry Average	6.1
	Industry Median	6.6
Peer Group		
	Peer Group First Quartile	3.5
	Peer Group Median	4.4
	Peer Group Third Quartile	6.2

Adjusted ROI comparable to vanilla WACC (%)

Rank		2014
1	OtagoNet Joint Venture	7.7
2	Eastland Network	6.2
3	The Lines Company	5.4
4	EA Networks	5.3
5	Buller Electricity	4.4
6	Marlborough Lines	3.1
7	Westpower	2.0
8	Network Waitaki	1.8
9	Centralines	1.6
	Industry Average	4.7
	Industry Median	4.6
Peer Group		
	Peer Group First Quartile	2.0
	Peer Group Median	4.4
	Peer Group Third Quartile	5.4

Rank		2015
1	OtagoNet Joint Venture	6.6
2	EA Networks	6.6
3	Eastland Network	5.2
4	The Lines Company	5.0
5	Centralines	5.0
6	Network Waitaki	4.3
7	Buller Electricity	4.3
8	Marlborough Lines	2.2
9	Westpower	2.1
	Industry Average	5.8
	Industry Median	5.8
Peer Group		
	Peer Group First Quartile	4.3
	Peer Group Median	5.0
	Peer Group Third Quartile	5.2

Rank		2015
1	OtagoNet Joint Venture	6.6
2	Eastland Network	5.2
3	The Lines Company	5.0
4	EA Networks	4.4
5	Buller Electricity	4.3
6	Network Waitaki	3.4
7	Centralines	2.9
8	Marlborough Lines	2.2
9	Westpower	0.3
	Industry Average	4.6
	Industry Median	4.4
Peer Group		
	Peer Group First Quartile	2.9
	Peer Group Median	4.3
	Peer Group Third Quartile	5.0