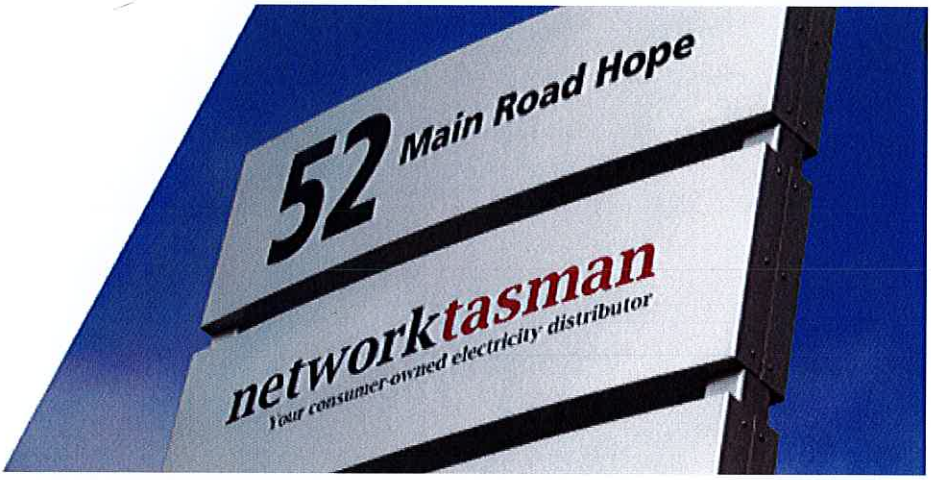
REPORT TO

NETWORK TASMAN LIMITED

COMPANY PERFORMANCE IN TERMS OF TRUST DEED



Review #	*1*	*2*	*3*	*4*	*5*	*6*
	1996	2001	2005	2010	2015	2021
Performance	✓	✓	✓-	✓	✓	✓✓
Consumer Trust ownership	✓	✓	✓✓	✓✓	✓✓✓	✓✓✓

Key Business Partners Limited
25 June 2021

KEY BUSINESS PARTNERS

Executive Summary

This report considers the performance of Network Tasman Limited "NTL" and discusses ownership structures, as required five yearly by the ownership Trust Deed.

Although being a small player with low influence in a large industry, the company continues (once again) to be in robust shape. The Trust as owner should be more than satisfied, as should consumers.

Analysis clearly shows this rural electricity distribution company operating at a good level in the key respects of:

- network reliability (what local consumers – the ultimate owners of this business – experience) – refer pages 19 and 21
- network pricing (which is a function of effective cost management) – which is charged to those consumers in a bundle via electricity retailers – refer pages 20 and 21
- shareholder value stewardship – refer page 25
- future optionality via retaining a strong balance sheet – refer page 11 and Appendix C page 2

The evidence for this conclusion is again based on solid facts. Aside from accountability via a mature process encompassing published Annual Reports, Asset Management Plans and Statements of Corporate Intent, many years of prescriptive Government regulations enable performance to be readily compared with peers – by any interested party, both now and in future. This an uncommon, yet key discipline on management over and above the usual governance a Board of Directors brings.

The Government imposed industry structure continues to be increasingly prescriptive although with slightly less change in the 5 years under review. Practical learnings from well publicised failures at Solid Energy and Aurora Energy are apparent in Audit NZ 2021 guidance for all electricity distribution businesses.

Helping balance this influence is the work of The Energy Trusts Association of NZ and more pertinently the Electricity Networks Association.

NTL is successfully leveraging its core skill base to grow and diversify outside the regulated arena; into complementary lines of business. In this regard the further progress of the 100% owned telecommunications fibre network business is noteworthy; as well as new investments in two electronic metering companies. Wise use of meter data outputs is now the next step to manage the core business better, including investment response to uncertain demand from certain growth of technologies such as PV, and electric vehicles ahead of climate change.

Conceptual merits of consumer trust ownership are again reviewed; along with other possible options, none of which are new. Many non–financial; and financial benefits of this ownership structure are identified and discussed – in combination a list which makes trust ownership compelling over all other options.

As before in the case of NTL, consumer trust ownership has proved effective, truly trustworthy; and continues to deliver 'stability without surprises' to underpin essential long term asset planning. Thus it has insulated consumers from much volatility, while facilitating steady improvements in performance.

NTL is well positioned.

Accordingly we are strongly of the view that Trust ownership is preferred.

Please note that where possible 2021 year unaudited data from NTL is used, to increase relevance of analysis and insights. Collated audited Industry disclosures for 2021 will not be available for some time yet.

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1.0 Brief for this Report

The requirement this time is identical to our last engagement; including:

Required:

To fulfil the requirements of the Tasman Electric Power Trust Deed, (and as amended August 1999 and June 2006) specifically Clause 4 Ownership Review:

"

4.1 No later than 1 April 1996 the Trustees shall require the directors of the Company to prepare a report considering proposals and available options for the future ownership of the shares of the Company. Such report shall contain the following detail:

a) an analysis of the performance of the Company to the date of the report *(see Sections 5 and 6)* together with a discussion of the advantages and disadvantages of trust ownership *(see Section 7.9)*;

b) an analysis of the various ownership options considered including without limitation, a share distribution to Consumers, a sale of shares to the public, a sale of Shares to institutional or other investors and retention by the Trust and some other form of consumer or public ownership *(see Section 7)*;

c) a comparison of the performance by the Company with the performance of other similar companies *(see Sections 5 and 6.2)*

[and]

4.11 If following the initial review provided for in this Clause 4 any or all of the Shares of the Company are retained by the Trustees, the Trustees shall thereafter carry out a review in accordance with Clause 4 every five years until the Termination Date so that the first such review shall commence no later than five years after completion of the first review.

"

The first ownership review was dated 28 February 1996. Subsequent reviews were dated 5 March 2001, 18 October 2005, 4 February 2011 and 7 March 2016.

Therefore this sixth ownership review is commenced with this Report, as required in the usual five year time frame. Public feedback on the 2016 review published on the NTL website has been taken into account.

2.0 NZ Electricity Industry Background

The underlying components are well established and attract heavy political, regulatory, offshore ratings agency and analyst scrutiny:

- generation, transmission (bulk, high voltage national grid network) and distribution (local networks) separated
- heavy overall industry oversight by the Electricity Authority (a Government agency with its own Statement of Corporate intent and reporting)
- strong regulatory oversight of both distribution companies and Transpower (which are monopolies) by the Commerce Commission (an independent Government entity responsible for enforcing competition laws):
    - price and quality oversight using direct (rather than targeted) price control for non-exempt line companies (e.g. NTL[1]) and standardised audited information disclosure reporting formats
    - mandatory 'strategic' communications driving accountability via annual Statements of Corporate Intent for many industry companies, including NTL
    - mandatory annually updated Asset Management Plan; which is a forced 'look forward' on a prescriptive and rigorous basis[2]
    - all 29 lines companies generally[3] forced to fit nationwide models

[1] To be "exempt" a distribution company must meet a number of prescribed tests. NTL fails because one shareholder Trustee is appointed by the three largest consumers. In November 2015 a proposal to change this and help reduce associated costs was proposed but not ultimately proceeded with .

[2] In contrast, examples of key long term infrastructure companies which do not have this prescriptive approach are ports, airports and metropolitan solid waste landfills

[3] "Generally" because non-exempt lines companies like NTL can apply for a customised price/quality path if the default path does not meet their needs

3.0 NTL in industry context

As in most if not all developed countries, the NZ electricity industry is technically complex, mature and features large in the economy.

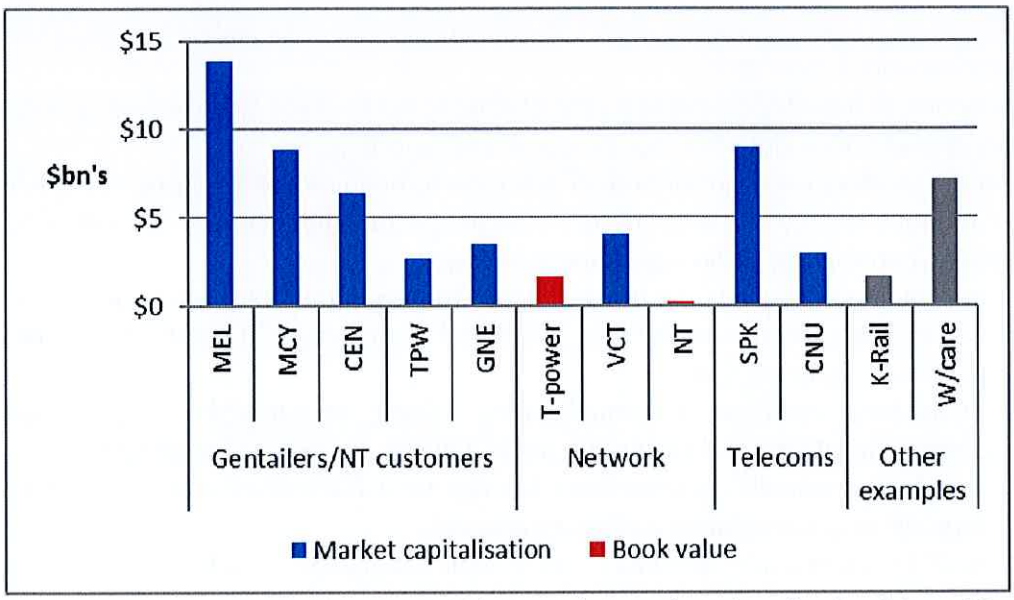


Figure 1 NZ Industry equity value compared (source: sharemarket where listed and Annual Reports)

In this broad context NTL (Shareholders Funds at Book value $222M as above) is a minnow. The Government continues to be by far the largest investor as cornerstone owner of public listed generator-retailers.

Other examples Watercare and KiwiRail are provided in context of Government led "3 Waters" reforms now under way and policy desire for greener freight transport .

4.0 Company Background

NTL effectively provides, via direct ownership and by contract with Transpower,[4] the 'pipeline' between points of bulk electricity generation and end use consumer's demand, at the touch of a switch.

Most electricity is consumed, as before, in directly adding value to logs, fruit, milk, fish, meat and other primary produce for export to world markets; as well as support services like Councils. A fibreboard manufacturer remains NTL's major customer, accounting for about one fifth of all electricity distributed; or over a quarter if electricity through to Nelson city is excluded.

NTL continues to be 100% owned by Network Tasman (electricity consumer) Trust.

NTL's core business is tightly constrained by regulations, comparatively simple, with stable technology. The opportunity to develop or innovate is limited. This core does however provide a platform for other activities.

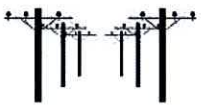
The core activity is distributing electricity via overhead and underground lines for a small number of retailer customers including Contact Energy, Meridian Energy, Trustpower etc. to over 41,000 end consumers who are the ongoing beneficial owners. These end consumers, or ICP's[5], with whom NTL has minimal direct relationship[6], are located in a 10,800 square km area of the greater Tasman/Nelson rural region, excluding 24 square km of Nelson city itself.

That Nelson city distributor is a separate company Nelson Electricity Limited which is 50% owned by NTL in a joint venture.

A Statement of Corporate Intent "SCI" is published annually in advance. This is a thorough and readable foundation document, establishing clear targets and accountability. It is easily located and accessed.

The current SCI for year to 31 March 2022 records NTL's Vision: "*to be a successful network services company for the benefit of our consumers*" (same as last Review).

[4] In technical terms, SOE Transpower is the national grid assets owner and system operator - see www.transpower.co.nz
[5] Installation Control Points
[6] Faults can be advised directly



Also the Mission, the management aims of the business are: *"to own and operate efficient, reliable and safe electricity networks and other complementary businesses while increasing consumer value"* (unchanged since last Review).

Business activities compare with past reviews as follows:

	Last review 2015	*This review 2021*
Electricity networks	Network operation including Nelson City JV; expanded with the purchase and integration of Motueka and Golden Bay 66kV line and substation assets off Transpower in December 2014	No change
	Fibre optic telecoms network operation; covering parts of Nelson, Motueka, Blenheim and Marlborough contributing 8% of Total Revenue	Fibre optic telecoms network operation; covering parts of Nelson, Motueka, Blenheim and Marlborough contributing 10% (+2%) of Total Revenue
Generation	Reduced in importance	
Commercial Property Investment	Division producing 3% of Revenue	Now producing 4% (+1%) of Revenue; comprising 15% (including Revaluations) of Total assets
Meter ownership at ICP's	Re-entered ownership of meters via playing a leading role in the SmartCo Limited electronic metering consortium and the On Metering Limited JV with Alpine Energy.	Penetration of over 72% achieved in On Metering and over 74% on NTL network (some meters provided in addition via other companies)

NTL's audited financial position (see Appendix C for detail) can be summarised:

31-Mar	*2005*	*2010*	*2015*	*2020*	
Sales	$30M	$37M	$48M	$55M	
Cash overheads	$6M	$8M	$12M	$15M	
NPBT[7]	$14M	$15M	$19M	$21M	Excludes equity profit on Nelson network JV and property revaluations
Less: Discounts given to consumers	$5M	$6M	$10M	$11M	
Assets	$121M	$186M	$217M	$252M	
Liabilities[8]	$4M	$34M	$42M	$40M	
SHF	$125M	$144M	$175M	$212M	
% to Assets	97%	81%	81%	84%	SCI target range is 81-82%
NPBT/Assets	10.9%	8.5%	8.7%	8.4%	
Sales/Assets	0.24x	0.21x	0.22x	0.22x	Very consistent

Core skills for NTL are unchanged:

<u>"Hard"</u>

- demand forecasting from a variety of data sources
- analytical skills to ensure that costs and performance data are captured reliably, understood and communicated as 'information' to a range of stakeholders; not least Government as the regulator who dictates what data in what format
- operating and capital cost management skills
- network asset management to ensure that the owned distribution network is reliable, secure and cost effective
- commercial skills so that capital investment as ultimately set out in the Asset Management Plan is in fact the most astute use of owners capital
- commercial transaction skills to plan and complete opportunities such as Transpower's Golden Bay assets and substations rebuilds
- contract management in respect of network capital expenditure and maintenance, vegetation control etc. and a small number of retailer contracts
- management of property rights – legal entitlement and access to land and airspace occupied by the network (now and potentially in future) and associated third party interfaces

[7] Before customer discounts
[8] Increased in 2008 due to deferred tax on asset revaluations

"Soft"

- communication and influencing skills to manage NTL business risk as a small regional player amongst many larger regional and national interests
- strategic skills in both a policy and numeric sense to discern opportunities and threats in a closely controlled and monitored environment; and effectively communicate these to stakeholders both large and small
- foresight to discern, analyse and communicate threats and opportunities with evolving technologies

In addition, entrepreneurial skills are needed more than ever to maximise value from the network resource and associated intellectual property; while not risking value on unusual initiatives.

The challenge continues: to demonstrably lower costs while managing increased levels of industry regulation; plus meeting demand for electricity in homes and businesses; plus identifying and leveraging competitive advantages and competencies in ways that are satisfying to the owner.

5.0 Company Performance

5.1 NTL Relative to industry - detail

For many so called "commodity" industries, the delivery or logistics systems are highly specialised (non-commoditised) according to the geographical attributes of both resource and demand. This is generally true for electricity in NZ and especially so for NTL. Hence all comparisons (including those based on statutory disclosures) must be read subject to the caveat that the underlying characteristics of *each* distribution network will be unique in many ways.

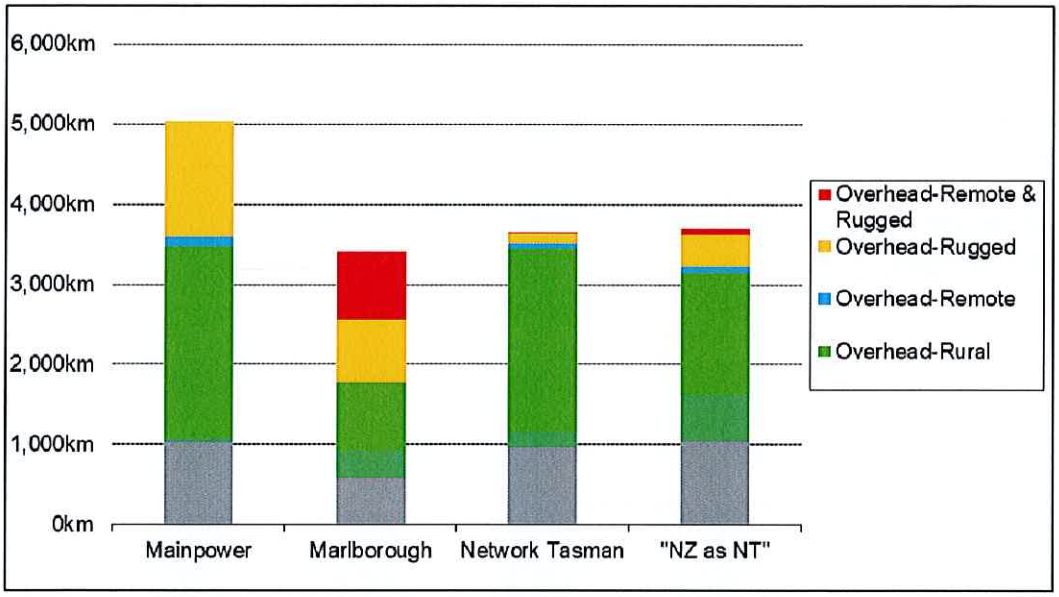


Figure 2 Comparison of physical infrastructure by line type (source PWC)

This chart highlights NTL's unique character (two thirds Overhead-Rural but with average underground length); even though these definitions of physical characteristics are prescribed in regulations.

It has been noted that "Other things being equal, the costs of distributing electricity to a specific location will differ from those at other locations"[9] This highlights the importance of examining longitudinal trend to effectively assess NTL performance.

[9] p11 Professor George Yarrow critique of The International Energy Authority's 2017 Review of New Zealand by Professor George Yarrow - Emeritus Fellow of Hertford College, University of Oxford and founding Chairman of the Regulatory Policy Institute Oxford UK https://etnz.org.nz/submissions-presentations/

	2004	*2010*	*2015*	*2020*	*Comments*
# NZ distribution companies	28	29	29	29	Consolidation has plateaued
Connections (consumers or ICP's)	33,335	36,219	38,314	41,031	Slower 1.1% compound growth, rate than 1.7% prior 5 years
rank	9th	11th	12th	12th	higher growth in other regions
Line length km	3,244	3,348	3,571	3,641	middle of the range for NZ companies
Consumers per km	10.3	10.8	10.6	11.2	Pleasing lift, adds economies of scale
peak demand MW (excl.Nelson Electricity)	105	117	118	114	Flat (which is good), weather has an effect
Transmission costs (to Transpower) c/kWh	1.16c	1.69c	2.38c	1.72c	
Year End ROI	8.9%	8.6%	7.4%	4.3%	Includes some definition changes over the years

5.2 Relative to industry generally - performance

As in past reviews we draw on published data in PWC's "Electricity Lines Business Information Disclosure Compendium". This 'industry bible' collates public disclosure data and promotes comparison. There are now 120 pages of tables and NTL can be seen as a satisfactory performer by almost any chosen measure. Therefore, analysis and discussion here is restricted to key issues.

NTL Reliability – what the average consumer experiences

It is clearly not cost effective to build any distribution infrastructure to handle all weather events; minimising SAIDI minutes must be balanced with capital expenditure, maintenance costs and 'self-insurance' by consumers; especially in remote regions. The fact is that 99.96%[10] reliability was achieved in the 2021 year, on average (same as 2020).

[10] Calculated via 214 SAIDI minutes that the average NTL customer lost power for in the year to 31 March 2021 divided by 525,600 minutes in the year

Full detail is charted in Appendix B; right through to 31 March 2021. NTL have endured a worse run with storms than in the preceding 5 year period, as explained in Annual Reports. It should be noted that:

- targets set by NTL and disclosed in successive SCIs have not been met
- it is impossible to apportion root cause between Mother Nature and Good Management

Appendix B page 3 is duplicated below; this chart displays a 5 year rolling SAIDI in line with the 5 year ownership review cycle:

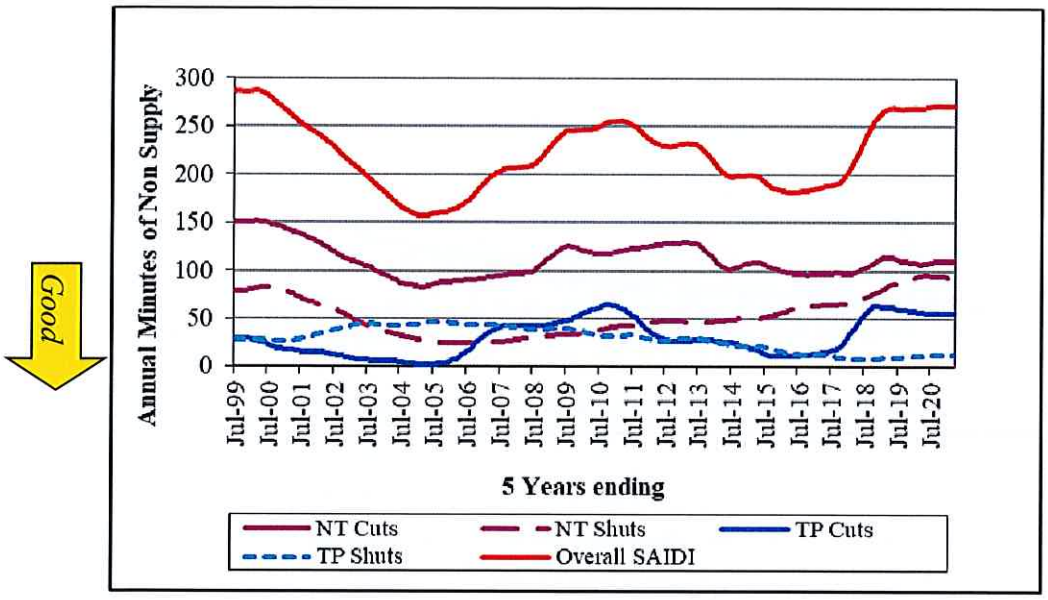


Figure 3 indicative 5 year rolling trend on SAIDI (source NTL)

This analysis is tentative as it takes an 'average of an average'. It shows an uncomfortable deterioration experienced by the average consumer, in part explained by more (unplanned) Transpower cuts.

Increased NTL shuts are attributable to a number of well-signalled factors including the purchase and embedding of certain Transpower assets 5 years ago and light copper conductor replacement programme.

Nevertheless, overall underlying trend in NTL reliability must be considered satisfactory.

NTL Cost Efficiency

It is a fact that NTL is efficient in an industry climate of increasing costs – Appendix D shows Cash Costs per ICP have increased by 50% across the industry since 2015 – a compound

annual growth rate of 8.9%. Perhaps reflecting growing risk awareness or risk aversion, this rate is accelerating; as the longer term 10 year CAGR is just 5.5%.

NTL continues to hold position in the lowest cost (best/green) quartile in most years.

In 2020, NTL cost efficiency was a third better than the median. Pleasing but the tension with SAIDI per Figure 3 is obvious.

A longitudinal analysis with key peers (including Aurora and Marlborough both of which have endured particular challenges) is below:

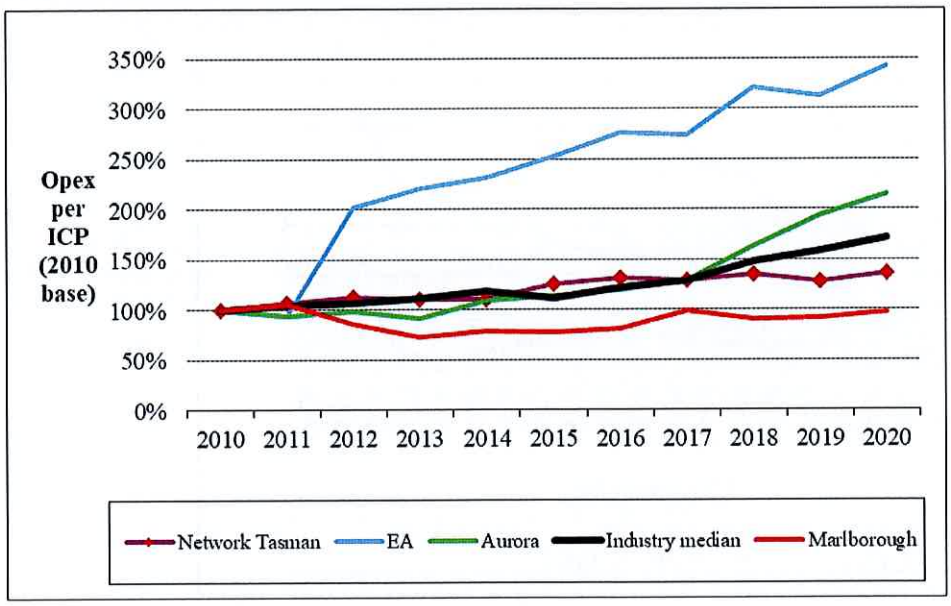


Figure 4 Operating Expenditure (as defined in regulated disclosures) x per ICP last 10 years source PWC with KBP analysis

Notes in conjunction with Appendix D and Figure 5 below:

- Marlborough has not improved much from an expensive base
- Aurora is experiencing catch-up
- NTL is both inexpensive and trending better than the industry median

Further evidence is below; that the relatively smaller size of NTL (and some others) is *not* an impediment to cost efficiency. NTL is marked as the brown diamond; neighbour Marlborough Lines as the red square:

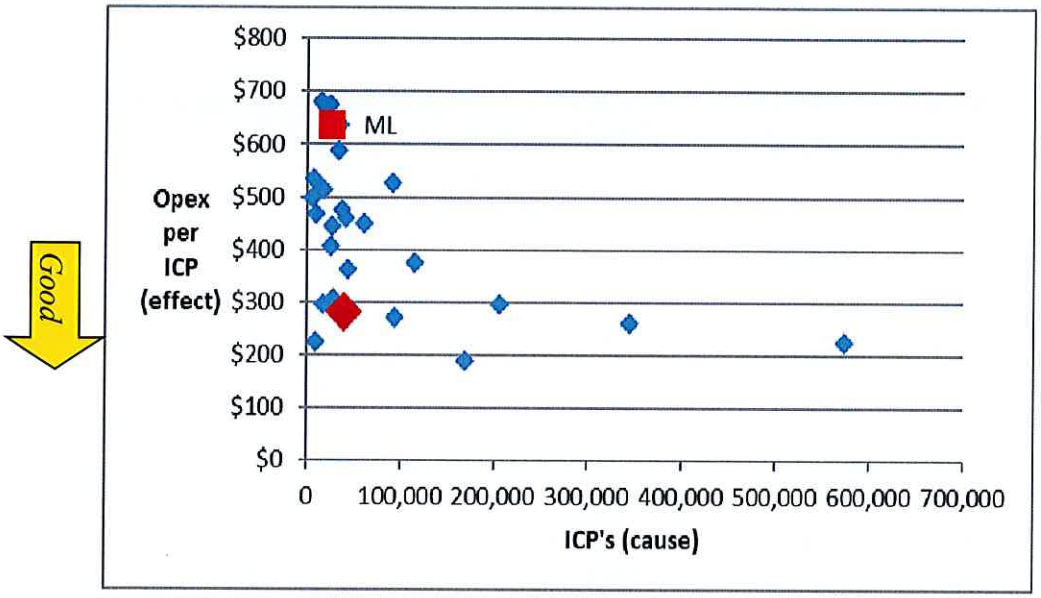


Figure 5 For year ended 31 March 2020 Compare line business by size (number of connections) with Operational Expenditure by Connection Point (source PWC collation from disclosures)

This evidence is consistent with previous performance review reports.

5.3 Relative to peers

Our analysis of performance now focuses on the three fundamental aspects of network reliability, network price and NTL's overall investment effectiveness.

Once again consideration was made of who are the best comparators. For example:

- same group as last time (the underlying lines businesses and physical environments are effectively the same)?
- 'friends' in SmartCo Meters (less relevant as 'friendship' in this sense is linked to strategy not physical characteristics)?
- networks with similar ICP's per square km of network area?

After reflection, it is our opinion that using the same four peers is appropriate[11]:

	NTL	EA Networks	Horizon Energy	Northpower	Marlborough Lines
Network area	Tasman including Richmond but excl. Nelson	Mid Canterbury	Whakatane and Eastern Bay of Plenty	Whangarei and Mid Northland	Marlborough
Topography[12]	Hilly, many trees	Flat, few trees	Mixed	Rolling hills, many trees	Hilly
Network type[13]	Dense urban + rural strings	Grid	Mixed	Dense urban + rural strings	Urban plus rural strings
Ownership	Consumer Trust	Co-op	Consumer Trust	Consumer Trust	Consumer Trust

A performance comparison is as follows:

Network reliability - Faults:

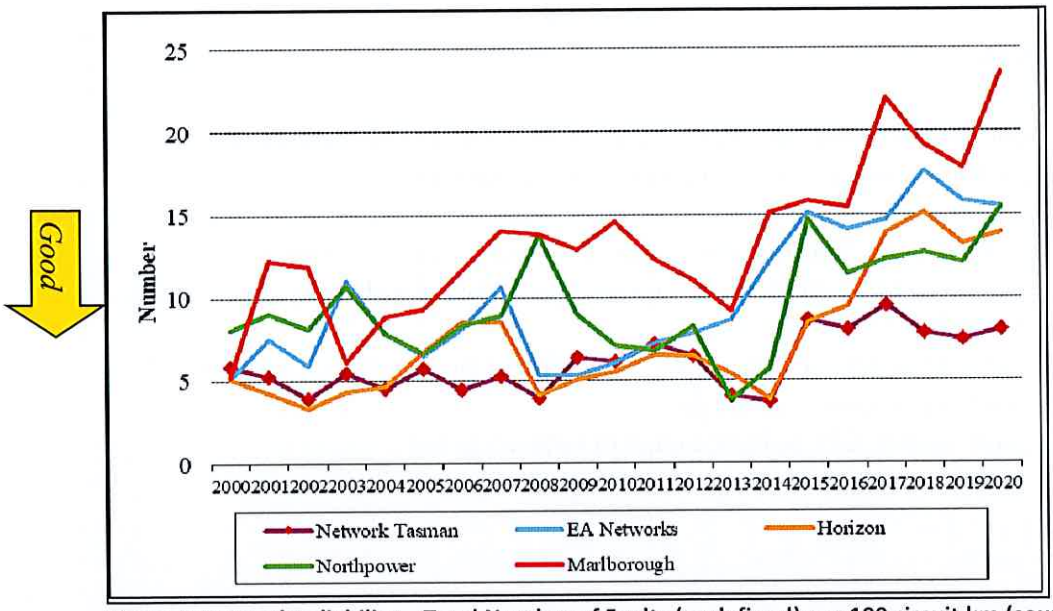


Figure 6 Network reliability – Total Number of Faults (as defined) per 100 circuit km (source PWC)

[11] Direct comparisons with the 50% owned Nelson city network are not appropriate because it is a dense urban network, with different characteristics. Marlborough Lines is similar and a reasonable but well known peer, however a broader peer group is deliberately chosen to achieve broader insight

[12] Hills and trees imply higher costs

[13] A grid, where feasible, will tend to mitigate supply interruptions

NTL has 'held its own amongst these peers; the poor trend of Marlborough is stark in comparison. This cannot be attributable simply to different weather patterns.

Average network revenue charged to customers

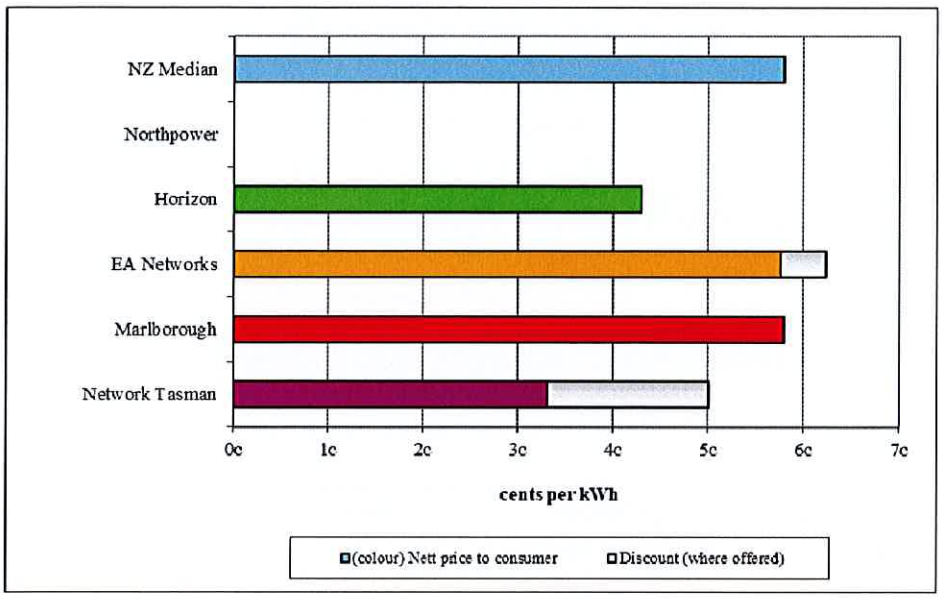


Figure 7 Revenue per kWh for year ended 31 March 2020 (source PWC plus KBP analysis)

This analysis shows a very acceptable (cheap charges on average) performance again from NTL[14]. Northpower data was inconsistent and unclear on this point.

[14] Comparisons can be debated because of the network specific mix of industrial and residential customers (tariff regimes)

Investment effectiveness

This measure captures the concerns of all customers and the regulator: Is the line business profiteering at the expense of consumers?

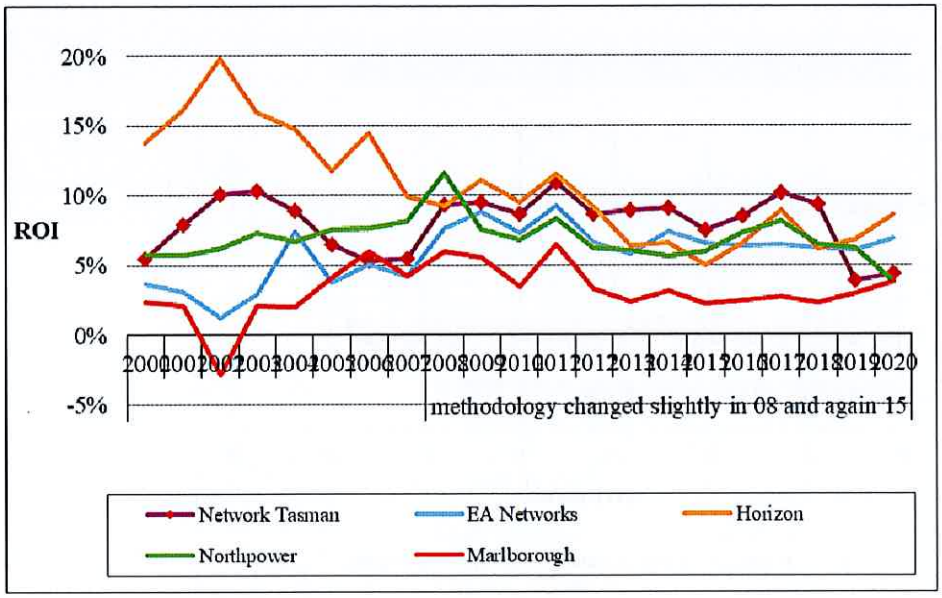


Figure 8 Line business Return on Investment (source PWC)

This chart is included for consistency as there have been regulatory Return on Investment methodology changes affecting all networks[15]. This includes how NTL discounts are analysed

[15] After 2008 ROI has discretionary but not "posted" discounts added back without tax adjustments whereas the old ROI had all discounts removed; NTL submitted to Commerce Commission on this anomaly; methodology changed again in 2015 but did not address this point. Thus NTL return seemed high but is not, due to consumer discounts. However this changed in 2018 highlighting EA and Horizon as expensive.

6.0 Network Tasman performance in detail

6.1 Public commitment to performance

Statement of Corporate Intent "SCI"
This document is agreed each year between Directors and Trust as shareholder, setting out NTL's strategic intentions and performance targets in the statutory format.

In a well established process, year by year performance is subsequently scrutinised and explanations sought. Further comment here does not add insight.

6.2 Network reliability and efficiency

Fundamentally, NTL exists to provide a reliable electricity distribution service in its region, in response to consumer needs with a prudent investment approach. Balance must be achieved between service quality and cost.

This aspect of performance is addressed in preceding sections.

6.3 Capital Expenditure and provision for the future

The first Asset Management Plan was published in 1994; the underlying process and understandings are mature.

NTL must generate sufficient free cashflow from tax paid profit, depreciation and working capital management to meet and sustain customer demand (including all network upgrading, renewals and replacement), before profits are shared with consumers in any way and shareholders rewarded for their risk investment.

As itemised in past Asset Management Plans; heavy capex is ahead. Analysis in Appendix C highlights the financial strength to support this planned spend. NTL's position can be summarised:

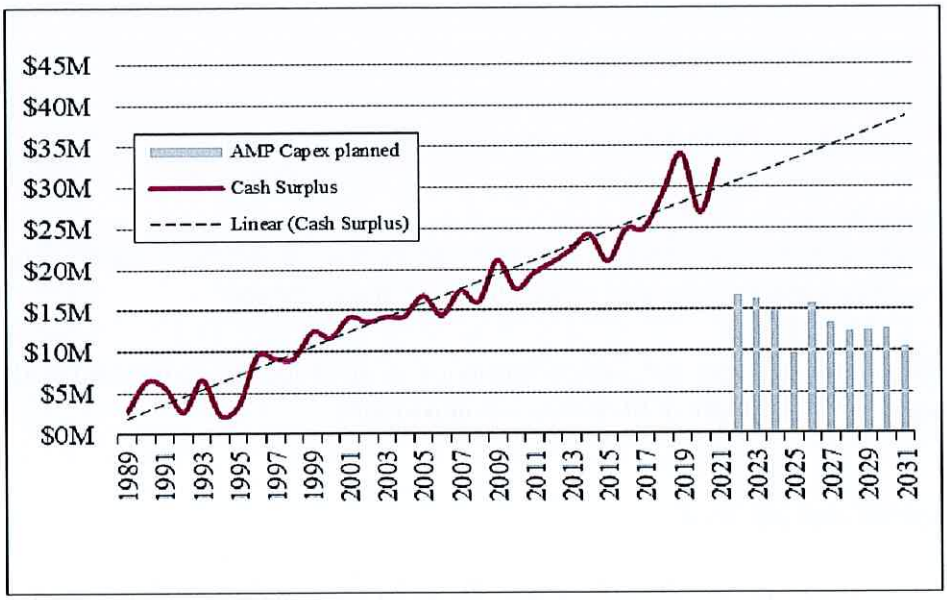


Figure 9 Free cashflow from Appendix C page 4 as compared with Asset Management Plan needs (trendline R^2 is strong at 0.94 i.e. low variability is evident)

Source data over this period is not inflation adjusted. This is not material to conclusions.

Clearly NTL is performing very well, with Cash Surplus from Operations of $33M in 2021 shared between consumers (just under $12M of discounts nett GST), shareholders (dividend $1.6M) and most notably fixed asset purchases ($13M nett). This led to a cash neutral position overall.

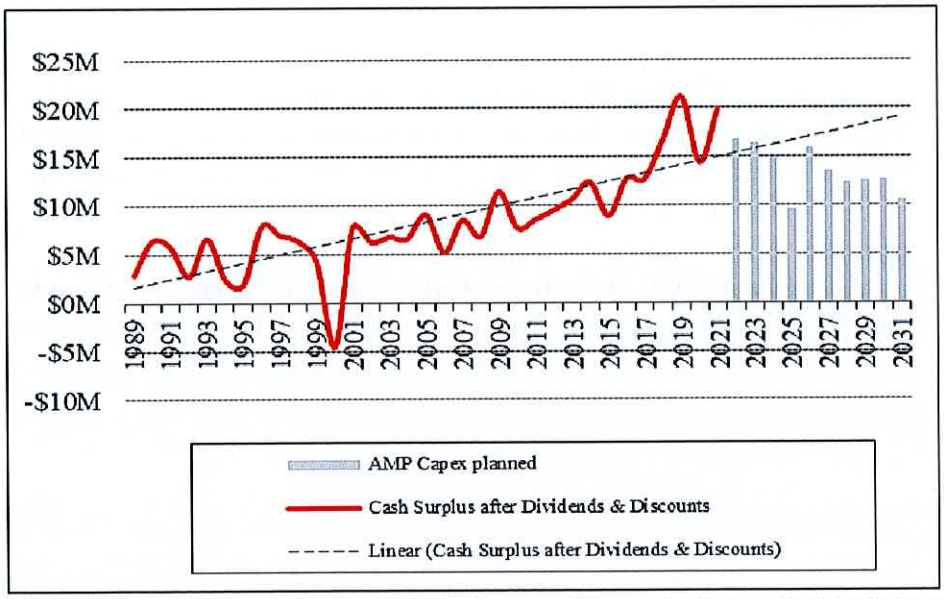


Figure 10 "Available" cashflow; after discretionary returns to both consumers and owner

This chart shows pressure in the next couple of years, which is not a surprise. However there seems no reason why past returns to stakeholders cannot be maintained; if not grown after that time although this will be subject to evolving knowledge about capex which will be set out in future Asset Management Plans.

It must be noted that the Balance Sheet carries modest debt, which would allow a significant uplift for proactive strategic opportunities, or reacting to challenges.

Notwithstanding the comfort of the trendline in the charts above, risks in this area have not reduced and still include:

- cash costs growing faster than revenue
- profit constraints in an increasingly regulated environment
- uncertain impact of emerging new technologies
- growth in peak load demand (required network strength) outstripping growth in average load (revenue earning volume)

Also, credit risk on customers is not zero; as evidenced by a bad debt to a small electricity retailer (Nextgen) in the 2020 year, as disclosed in the 2020 Annual Report.

6.4 Shareholder Value

In addition to running a successful business, NTL must also be a good investment for its shareholder. Although the Network Tasman Trust is not driven by any need to diversify its high risk concentration, the NTL investment must be seen to be wise on a portfolio basis.

With the benefit of hindsight this leads to questions of "what might have been" (opportunities foregone) and more significantly "what might be" (today's opportunity cost) in future. The *average* residual asset life of NTL is 23 years[16]. For new investments the asset life may be double that. This means that from a pure investment perspective it is difficult to assess NTL because it's "value" will vary hugely with core assumptions of kWh throughput, revenue, cost and interest rates (influencing WACC - cost of capital) over the long term. Plus, revenue from investments such as Nelson Electricity Limited (50% owned), the fibre optic telecoms network and benefits (via both revenue, as well as cost of network management) from electronic metering.

Of these the volume is becoming more risky with new technologies more obviously to the fore. In other words, the cost of the network potentially borne by fewer consumers (more standing alone from the grid) and less volume (more solar generation/battery storage with reliance on grid connection for peak demand only). This may be mitigated

[16] Fixed Assets (network plus other) $210M divided by depreciation expense $9.2M = 23 years

by electric cars requiring battery charging subsequently increasing demand for electricity.

NTL has developed a Future Pricing Strategy[17] that identifies these risks along with a plan to mitigate them.

A summary comparison (Appendix C page 2) is as follows:

NTL opening Shareholders Funds 31 March 2015 $175.174M[18]
NTL closing Shareholders Funds 31 March 2021 $222.004M

	Last review	This review
Compound tax paid growth	+4.0%	+4.0% (same)
Including customer rebates & dividends[19]	+11.5%	+9.2%

The tax paid return of 9.2% above assumes consistent taxation of consumer discounts and shareholder dividends across all customers. A consumer by consumer analysis is impractical; but comparing the risk premium earned by the low variability of cashflow investment in NTL against both deposit rates and mortgage rates over the last 6 years shows that all customers should be very satisfied.

It can be deduced that NTL is outperforming alternative financial investments for most consumers.

For those consumers invested in an NZSE50 portfolio, outperformance would be absent as the NZX50 index gained 14% p.a. in the time. However in Australia the ASX200 only gained 2.5% (before FX impact converting back to NZD).

In conclusion, NTL as an investment is performing well.

Additional amenity value is provided by increase in undergrounding lines; which has grown from 24% in 2015 to 27% of total NTL circuit km currently.

It should also be noted that these comparisons take no account of other important benefits provided to end consumers (ie ongoing Trust beneficiaries) in the form of good quality electricity supply at a reasonable nett price. **This is even more important in a working-from-home world.**
We would expect these benefits to be durable. They will tend not to be affected by local and global capital market gyrations and sentiment about a particular listed country or share or industry sector.

[17] Published at https://www.networktasman.co.nz/media.ashx/ntl-pricingmethodology2020.pdf
[18] Starting Shareholders Funds in 1993 were only $30M
[19] Assume no reinvestment growth.

6.5 Complaints

Not getting out of step with end customers is also vital. NTL's complaints register shows 19 complaints referred to the Electricity and Gas Complaints Commissioner (now renamed to Utilities Disputes Limited) between 2016 and now. None of which were upheld by Utilities Disputes Limited. While this is a big increase on the number received between 2011 and 2015 this nevertheless suggests that the process is working.

6.6 Other lines of business

Fibre technology networks

NTL continues to make steady progress in its fibre optic telecommunications business. From revenue of $5.4M in the year to 31 March 2021 this line of business now contributes (after costs) one fifth of cash profit (Earnings Before Interest, Depreciation and Tax).

Metering

Meter roll out and penetration is progressing well. Capital investment (largely completed) is heavy at this point in relation to returns.

Property

Investment property is performing well, recording steady progress in rental income to $2M per annum in the 2021 financial year.

Other

NTL remains tightly focused on clearly related activities. A good strategy.

7.0 Ownership options

The 2015 review (again) identified the following options for ownership of shareholding in Network Tasman:

- listed company
- unlisted company
- local authority ownership
- co-operative registered under Co-operative Companies Act
- trust (status quo)

This same set of options still applies. A key driver of ownership structure for any business is the need for capital to fund organic growth, new business development or growth by acquisition. As analysed in Section 6.3, NTL's anticipated needs in this area can be internally generated. So there is no driver for change and status quo is preferred.

7.1 Financial performance of different ownership types

It is important to remember that for *any* ownership model or structure applied to such a monopoly business, profitability is never an indicator of efficiency – low costs are. Profits can always flow via adjusting charges to suit the prevailing or regulation-permitted cost structure.

In reviewing PWC data over many years we note that:

- there is no evidence of lower cost structures arising from 'non trust' forms of ownership
- trust owned networks are represented at the best and worst ends of performance ranges
- there is no relationship apparent between good performance and ownership structure

Since 2015 the only material change in the industry is that Horizon is no longer public listed. This has not yet caused their disclosed costs to decline or performance to materially increase.

7.2 Overview of ownership types

It is important to note that while NTL as a business is 'consumer focused' it has limited direct relationship with end consumers, except for two large consumers and two generators who are billed directly. Network charges are on-charged via energy retailers such as Contact, Meridian etc. Discounts are passed through in the same manner.

It is also crucial to appreciate that business performance is ultimately determined by the quality of management (implementing strategy) and governance (strategy development and oversight of implementation). No structure can compensate for overarching strengths and weaknesses of Management operating under effective skills based[20] Governance oversight. This is clear from the examples in the form of separate, well documented shortcomings of Marlborough Lines (Trust), Aurora (Council) and Solid Energy (Government), Silver Fern Farms (co-op).

In any sector or market; for every example of a 'great' company with a particular ownership structure there will almost certainly be a poor one.

7.3 Public ownership, listed on a stock exchange

The only relevant example is NZ Stock Exchange (NZX) listed Vector; quite a different and larger company to NTL although ownership is hybrid - 75.1% by Entrust (formerly Auckland Energy Consumer Trust).

Public listing is understood in global capital markets as the purest ownership form. In theory, shareholders are fully informed via the workings of the 'perfect market' and can make the best *investment* decision as individuals. In particular, shareholders hold the option to liquidate their invested capital by selling their shares any time.

The perfect market is at best a theory; as numerous examples attest, such as price volatility in Covid-affected markets.

Also well illustrated by volatility in the per share price one of the largest NZX listed companies recently when certain overseas funds entered, then left the market, creating winners and losers on a number of levels:

[20] With skills and a skills mix around the table which are best for the business; as opposed to a 'representative' Board where individuals tend to have only their owners voice

Figure 11 Meridian Energy share price (thus market capitalisation pattern) in last 12 months

In this context it should be noted that NZX is tiny by comparison with foreign exchanges. It is about 0.1% by market capitalisation of world exchanges. For example Norway, a country of a similar population to NZ, is almost three times NZ's size at 0.29%, while Australia is 14 times the size at 1.46%. This is not encouraging of ongoing price transparency for any NZ listed company.

Advantages

- Economic purity - investment performance is decoupled from network service performance
- Liquidity – shareholders can sell at any time rather than being captive investors
- Value is enhanced by commoditising the investment and making it easy for buyers and sellers to transact under agreed rules and specified quality e.g. NZX listing rules[21]
- The value of a minority shareholding is determined continuously in the market (takeovers pay a 'rule of thumb' 30% premium for control)
- Shareholders can take personal responsibility and exercise their democratic 'vote' by buying or selling if they approve or disapprove of company strategy, management, other shareholders, growth prospects or performance[22]
- Similarly, management obtain regular feedback about investor perceptions of their performance - ultimately poor managers will lose their jobs through takeover
- Broadens scrutiny of financial performance

[21] Auditing standards would be common across both listed and unlisted companies and Trusts
[22] In the Network Tasman Trust elections, a low number of consumers exercise their democratic right to vote. For the last election, held in 2018, the figure in 2018 was 22%.

- Increased company profile
- Access to new equity capital via the market
- Better access to debt capital from bankers attracted to the high profile
- Management can be rewarded via share options i.e. benefit from increase in shareholder value as determined by the market (scheme needs to adjust for market index movement to target underlying company performance)
- Potential for unwelcome takeover activity may sharpen governance and management performance focus
- Avoids risks associated with local politics, trusts and associated parochialism

Disadvantages

- The 'perfect market' is at best a theory
- Market valuation of shares is imperfect and is often decided reactively by expert opinions in a high stakes takeover situation
- Management are incentivised to maximise pricing to customers and minimise service costs to lift profit and return on shareholders risk capital
- The threat of takeover while a fundamental driver of behaviour, is not necessarily a good thing for all stakeholders, especially in a regional context
- Benefits present generation of electricity consumers at the expense of future individuals living at the same ICP – in other words is not fair in terms of preserving inter temporal equity between network consumers, because shares (ownership rights) can only be issued at a single point in time
- Furthermore, this present cohort of consumers are most unlikely to have 'written a cheque' for their network assets
- Despite the best efforts of market surveillance committees and regulators, markets do not always serve all shareholders equally or fairly; often they are accountable to political masters
- Small shareholders are always at a disadvantage both buying and selling compared with the research resources and information networks of major investing institutions (who are often from offshore)
- Research institutions and analysts prioritise their scarce time and increasingly less frequently cover 'small capitalisation' companies
- Small size would also provide low liquidity for investors and poor market price signalling
- If taken over, it would likely be by a larger network company seeking economies of scale, hence it is most unlikely that the local distribution network could ever be repurchased
- High initial costs of listing – direct legal, advisory and indirect management time
- Ongoing compliance costs and distraction e.g. maintenance of share register, meeting analysts etc

- Likelihood of management emphasis moving to share price (capital gain for self and shareholders[23]) and its drivers rather than underlying business performance and in particular consumer service
- In large corporates there is no connection between management (often seeking their next promotion) and consumers (who are thinking about the next generations of their energy dependent family/business)
- Ongoing 'noise' in the share price from macro factors such as interest rates, China, quarterly reported earnings of other companies etc
- With a focus toward 'earnings per share', listing introduces a bias towards expansion and debt financing, which implicitly raises the risk profile of the underlying network business
- With management necessarily focusing on maximising growth in share price there can easily be a bias away from long term capital decisions which benefit consumers but reduce short term profitability
- Market perceptions of company performance (bad or good) may lead to control leaving the region, with end consumers having no say and small shareholders little say
- Even with control retained; unconstructive and activist influences can emerge as minority shareholder representatives on the Board
- A listed company has few 'checks and balances' to prevent consumers being disadvantaged by a merger or takeover proposal or a grandiose idea by management
- Finally, because distribution is a natural monopoly of huge regional economic significance, listing could lead to exploitation by absentee managers and owners with little vested interest in the economic success of the region

Note that there are listing options in addition to the NZX, notably Unlisted. However these are less liquid than the much larger NZX which attracts more buyers and sellers and is thus more likely to expose true value on any given day.

7.4 Public ownership, unlisted

No examples.

This structure with the company running its own share exchange retains most of the advantages and disadvantages of public listing, but with greater simplicity and lowered cost. It can work well – for example Fulton Hogan Limited is a successful public unlisted company – much larger than NTL. After decades of high growth many of the 7000 employees are shareholders; some in modest roles are wealthy after long careers.

[23] NZX and ASX listed A2 Milk in last 12 months is a textbook example

The trade-off for lower 'compliance' costs is a lack of marketability for shares (drives price down) and the need for a share price setting process and trading mechanism that may not reflect 'fair value' at any one time. In other words there would be no daily price discovery on market.

Unlike FH, NTL is not a people intensive business – it is far more capital intensive.

7.5 Local Government

For example Orion (Christchurch - good), Aurora (Dunedin - poor).

In this model shares in the network company – a LATE[24] or other structure - are held by the local authority(ies) in a region.

Advantages:

- Optimises ability to operate in sync with Local Authority policy on business development and town planning
- Simple administration e.g., governance via an appointed Board of Directors without elected Trustees or a share register
- Access to capital and credit standing via Council's power to rate
- Potential economies of both scale and scope with other local networks such as water and wastewater

Disadvantages:

- High political involvement
- Local Government is necessarily focused on minimising the impost of rates and ownership of monopolies gives a safe mechanism to do so via dividend income streams
- Any profits – retained earnings and dividends - from providing the network are available to the Local Authority as shareholder and could directly or indirectly subsidise any kind of endeavour without end consumers or ratepayers having a say
- In the worst case, borrowing ability or cash reserves can be stripped out by capital restructuring and payment of "Special Dividends" and substituted with debt
- The network business is ultimately responsible to a small group of Councillors led by an elected Mayor (not voted as leader by peers, as in a governance Board) whose futures are determined via a three yearly electoral cycle
- A highly politicised structure, which must balance local interest with skills in appointing qualified Directors

[24] Local Authority Trading Enterprise

- While the company may have a commercial Board, there is the probability of weak appointments due to Council related influence elsewhere – and once made, this allegation is hard to rebut
- Linkages with local development may in practise be tenuous and lead to choosing between (say) undergrounding power lines or building social housing due to issues of capital scarcity and lack of direct focus on the network
- Furthermore many Councils are now facing funding pressure for "3 waters" networks
- Perceptions of paternalism
- A strong and hard to rebut possibility that decisions will be made on the basis of political expediency
- Public distrust from cynicism about Local Government (evidenced by low voter turnout in elections), increasingly fuelled by media channels who see elected representatives as fair targets in the name of public debate
- Local Authority ownership does not imply good stakeholder relationships
- Delinked democratic process between consumers and network management

7.6 Co-operative

These are a well known business model despite being considered old fashioned in some circles. Co-operative business is huge both globally and in NZ and continues to be commercially successful in general. There are two types: 'purchasers' such as Fonterra and meat companies; and 'suppliers' such as fertilizer, Foodstuffs (wholesale groceries), Farmlands (farming suppliers) and Electricity Ashburton.

Essentially it is like a 'club' with payment of a nominal joining fee (a shareholding) relating to usage. This allows access to services and a share of any profits either directly via rebates, discounts etc or by dividends. On retiring, the shareholder redeems the shares and does not share in the capital growth of the business, which lives on for existing and new users.

Currently Fonterra faces challenge, as that large, hybrid co-operative structure is not meeting expectations for all owners.

<u>Advantages</u>

- Specific, identified shareholders joined together by the 'common good'
- High assurance of often specialised input supplies or markets
- Provide collective economies of scale
- Risk sharing by pooling of risk; including risk on implementing new innovations
- Company is typically governed in the majority by shareholder elected directors, who in turn appoint management

- Well suited where capital needs are low and intergenerational value is similar
- Strengthened sense of 'community', especially in farming
- Saved layer of cost (in contrast to NTL) with no Trust in between company and consumers

Disadvantages

- Somewhat complex legal structure which 'locks in' the status quo
- Quite politicised with an electoral cycle and more reliant than other models on management quality
- Benefits of 'community' can be lost in a larger organisation
- In event of a good takeover offer there are hard decisions to be made on how value is shared
- Checks and balances available (in contrast to NTL) from Trustees are absent

In summary, co-operatives are somewhat like a Trust but without any compelling relative structural advantage.

7.7 Other/Mixed

Various other ownership models can be conceived, such as Central Government 'mixed ownership' or a Joint Venture or cornerstone institutional shareholding. These could have merit in some circumstances however we make the following comments:

- The less 'mainstream' a business ownership model is, the less valuable it will be, as it will be less well understood and less trusted; this would particularly apply to a small business such as NTL; this fact is to some extent impacting Fonterra now
- With value not readily understood, the chance is higher that one knowledgeable party will understand value and take control of the business cheaply
- This lack of transparency will cause concern from Board level down as people grapple with meeting the needs of all stakeholders
- Joint Ventures need a high level of trust (both intent and capability) between the partners to be a durable business model (most do not endure)
- Mixed shareholding structures will be more challenging at Board level due to the need for Directors to act in the best interests of the company i.e. put profits and shareholder value ahead of consumers and any other community interests
- Polarised Boards are unlikely to meet the needs of any stakeholders effectively, whether financial or public good

Thus our opinion is that the best business model is a 'mainstream' one that is well understood.

7.8 Trust

NTL is a stellar example of this model, in that the management team report through a Chief Executive to Board, who in turn report at longer intervals to elected Trustees. NTL in particular illustrates effective CE succession, promoting organisational vigour and durability. The annual Statement of Corporate Intent is the key linking document to drive strategy and performance accountability down from the Trust as owner, through the Directors they appoint, to CE and his/her management team.

NTL is a *consumer* trust, with NTL operating for the benefit of electricity users connected to the regional network, at a point in time. In our opinion this is a strongly preferred arrangement to a community trust where the trust beneficiaries and company end consumers are potentially different groups – without the same alignment.

The Trust is therefore the collective (lobbying) voice of all network users, from large manufacturers down to small consumers such as a rural public hall and artists.

This chain of influence ensures that management are compelled to take into account the effect of their decisions on consumers, in all market and regulatory circumstances. In other words, a constructive tension exists between the profit/shareholder value motive; customer requirements of service and price; and government commands.

Whether or not this is a healthy tension depends on the relationship between Trustees and the Board.

The Trust model in our view is more demanding of Board and Trustee skill as complex and technical issues have to be worked through (sometimes in public and usually nowadays in social media) and risk/reward tradeoffs justified. Testing has taken place at NTL; for example the recent need to reduce dividend.

At a higher level, in an industry climate of high change, the Trust ownership structure allows Trustees to receive and review major strategic or rationalisation proposals which may be good for consumers as ultimate shareholders.

Conceptually the Trust ownership model can be considered as a **family** business, taking concentrated risks with knowledgeable attention from older, less involved family members who want to see all family members thrive, long term. This Board and Trust model mirrors the balancing governance of Board (what is best for the business) and Family Council (what is best for the family) model which is considered best practise[25] for family businesses – of which there is no shortage of large and sustainable exemplars globally.

[25] Advocated for example by Harvard Business School and Insead in programs run each year

Like family business; it is not all about the money and it is appropriate to reflect on merits both Non-Financial and Financial – although in practise the lines are blurred and many are mutually reinforcing:

Non-Financial Advantages:

- The opportunity to be a trusted and strong 'local' organisation providing a complex and essential long term input to daily life and business
- Retains a commercial relationship between network service and quality; and end consumers with a channel to return discounts to consumers in a manner beneficial to both homes and businesses
- While being 'commercial' can balance the needs of less commercially attractive/cross subsidised consumers such as distant farms and the underprivileged/unemployed/sick, in a focused way; with heart
- Similarly, that part of NTL's annual capital expenditure program steadily undergrounding lines offers modest operating cost savings but perhaps more importantly is aesthetically pleasing in those fortunate neighbourhoods; as well as lowering risk from motor vehicle vs pole opportunities
- Clear shareholder and customer accountability established for management – via the Board to the Trustees
- The Trust's position as shareholder receiving dividends is that of a well empowered consumer advocate
- The common good is given an efficient corporate voice at the company Board table and in the community
- Trust ownership with the SCI guiding the operating company is a mainstream business model which is widely understood
- As such it should attract good quality people at all levels
- It is a durable structure which at the same time gives flexibility to meet opportunities and threats in the heavily controlled NZ electricity environment
    - This seems particularly important right now as evolving technologies will present threats and opportunities locally along with community possibilities (i.e. enriching family life of consumers) – fibre to school is a historic example of this non-financial benefit
- Preserves other ownership options for ongoing consideration
- Open process is assured in event of ownership change
- Provides another funding option in the local community for worthwhile (risky) projects both inside (e.g. evolving technologies) and outside core business

Financial Advantages:

- Allows benefits to be passed on to consumers in the most optimal form e.g. dividends, discounts, vouchers etc. as tax rules may change from time to time
- Cash stays in local community, for agreed community benefit

- A good mechanism to prevent excessive profits being extracted from consumers of a natural monopoly business
- In any event there are reasonable checks and balances so 'surpluses' (if any) flow back to consumers[26]
- Maximises the option, should a sale possibility arise, of achieving a control premium in the price of a dominant share block
- Allows due consideration of long term customer benefits which is appropriate when dealing with fixed assets which will almost certainly still be in service two generations hence

Disadvantages:

- Relies on consumer participation in the democracy to exercise a vote, which can be a struggle against both apathy and a basic level of satisfaction (see earlier footnote)
- Requires a high skill level of Trustees and Boards to balance stakeholder needs and assess risks; without being too close to stakeholders and losing objectivity
- Risk of parochialism getting in the way of good business practise
- In particular there is risk of capture via the Trust by misguided 'local' investment interests e.g. water storage dams, wineries, tourist railways, mussel farms etc.
- The Trust can be subject to accusations of being either too weak or too dominant
- End consumers who feel they have some claim on the network investment cannot liquidate their investment
- Satisfactory participation rates in Trust elections are required to ensure effective democracy; ongoing engagement is critical (and at times both costly and painful)
- 'Trust' ownership can be an acronym for 'conservativism' in the name of 'prudence' when good business is about identifying, taking on and managing specific risks

If the interests of local consumers are truly paramount, the consumer Trust model remains hard to beat.

[26] This can be manipulated for example if a Trust owned network purchased another network in which consumers were not Trust beneficiaries (Nelson Electricity, Unison Taupo and Rotorua)

8.0 Summary

In light of ongoing change in the industry since Tasman Energy Limited was initially formed on 1 May 1993, it is clear that Trust ownership has served the company, its consumers and its shareholders extremely well. The degree of change imposed externally has been significant and has been effectively managed while:

- delivering good network service quality
- lowering average network prices
- providing low variability in quality and price; year in, year out
- expanding into non-core fibre and property businesses
- stepping into new technologies (electronic meters)
- adding shareholder value
- working through public debates on issues

At this time it is well noted that the most significant external change on the horizon – presenting both challenge and opportunity - is from new technologies. Overlaying this are implications arising from the NZ Climate Change Commission report delivered on 9 June 2021.

Consideration of all the above factors implies that any alternative ownership structure must present a strong case. Once again there is clearly no beneficial alternative.

9.0 Recommendations

1 Note this report, in particular that continued Trust ownership is best
2 Recognise NTL's operating environment of tight external scrutiny and extend the 5 year Ownership Review interval
3 Closely monitor the 5 year rolling average SAIDI trend (update as at 31 March 2022)

10.0 Appreciation

We have once again received all the information and explanations we sought from NTL staff. We acknowledge their input in the preparation of this Report.

Yours faithfully
Key Business Partners Limited

Vincent H Pooch, Director
(Qualifications: NZ Certificate of Mechanical Engineering, Chartered Accountant, Associate AusIMM, Chartered Fellow of Institute of Directors)
vincent.pooch@.keypartners.co.nz

Appendices

A Definitions of Technical terms
B Network reliability charts
C Summary Financial Analysis
D Quartile analysis
E A glimpse of future opportunity and threat

References

Chronology of NZ Electricity Reform dated August 2015 by Energy Markets Policy; Energy and Resources Branch of Ministry of Business and Enterprise ("MBIE") http://www.mbie.govt.nz/info-services/sectors-industries/energy/electricity-market/electricity-industry/chronology-of-new-zealand-electricity-reform/chronology-of-nz-electricity-reform.pdf

Annual reports and other material from NTL website www.networktasman.co.nz

- Asset Management Plan for the 10 years 1 April 2021 to 31 March 2031 approved by the Board of NTL on 26 March 2021 and published on NTL website; next review as per usual annual cycle on 31 March 2022
    - Includes Customer Survey by SIL Research dated December 2020 (the 4th undertaken)
- Statement of Corporate Intents up to years ended 31st March 2022 (also reviewed on an annual cycle)

Tasman Electric Power Trust Amended Trust Deed (noting proposed but not proceeded with changes in 2015)

PWC Annual Electricity Line Business Information Disclosure Compendia

Consultants industry report dated 31 August 2018 Efficiency-Gains-from-EDB-Amalgamation.pdf (tdb.co.nz)

Critique of The International Energy Authority's 2017 Review of New Zealand by Professor George Yarrow - Emeritus Fellow of Hertford College, University of Oxford and founding Chairman of the Regulatory Policy Institute Oxford UK https://etnz.org.nz/submissions-presentations/

Electricity Authority Statement of Intent 1 July 2020 - 30 June 2024 https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/

Appendix A

Definitions of Technical Terms

Direct Costs – as defined by legislation, expenditure directly related to operating or maintaining the business and specifically excludes capital expenditure, depreciation, interest, tax and Transpower charges.

Equity Ratio – Total Shareholder's Funds divided by Total Assets. Simplistically, what proportion of the business is financed by the shareholders, either as capital input or retained profits/reserves.

Imputed dividend – a dividend paid to a shareholder with a tax credit attached in reflection of tax already paid by the company. A 'fully imputed' dividend of $100 is worth $138.99 to the shareholder due to the $38.89 (28%) tax credit attached.

kWH - Kilowatt – hours 1,000 watt-hours. Relates to power output or consumptions. A "1kW' heater switched on for one hour will use 1 kWH of electricity.

Natural Monopoly refers to a market situation in which a single firm can supply the entire market more efficiently than any number of larger firms due to the good or more commonly service being so complicated or expensive from economies of scale or other reasons.

NZSE50 Capital Index is a measure of the aggregate change in share prices for the 50 largest companies listed on the NZ Stock Exchange.

ICP – Installation Control Point, which signifies an electricity consumer connected to the network.

Indirect Costs – as defined by legislation, in effect is cash overheads.

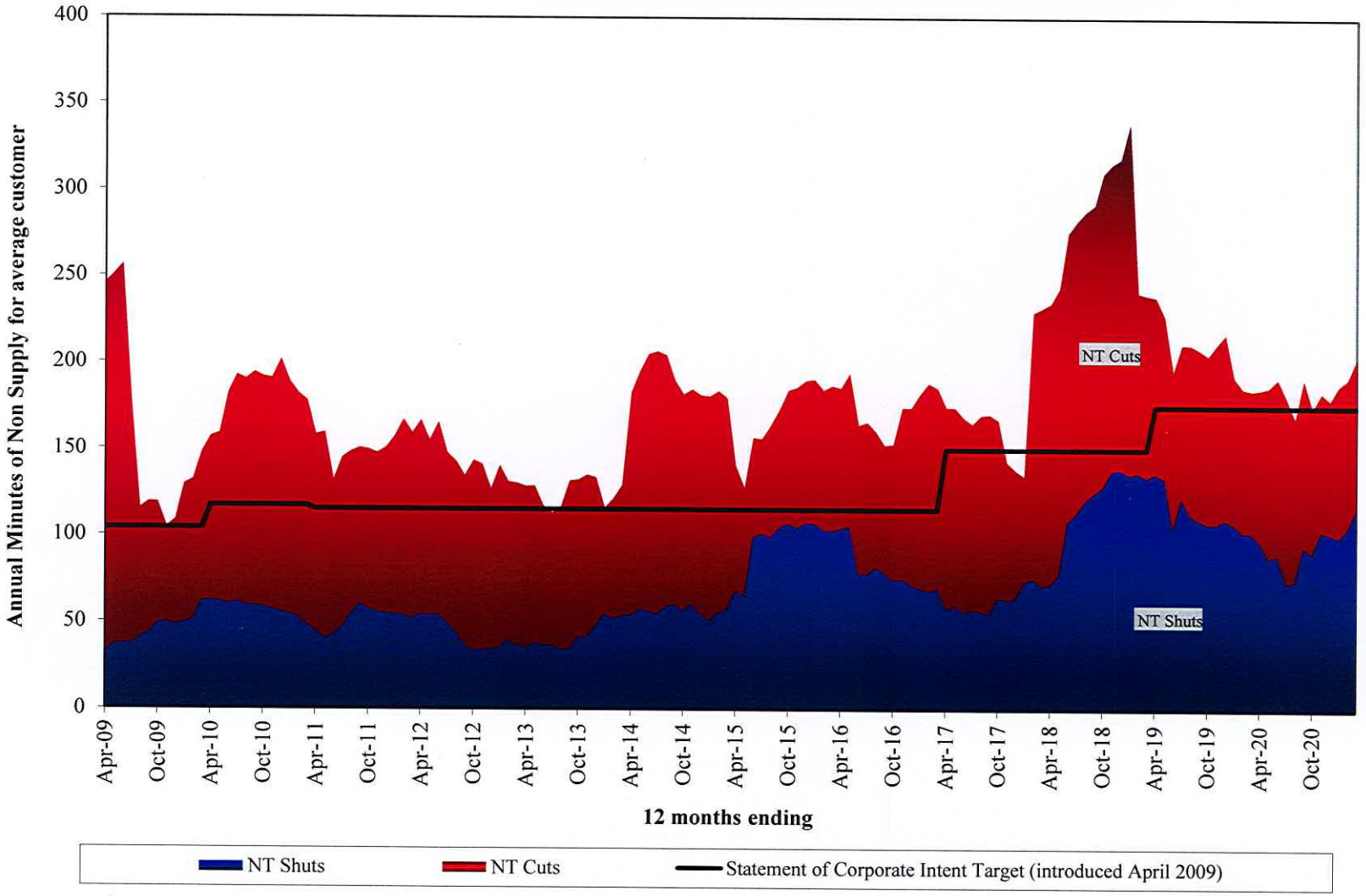
SAIDI – System Average Interruption Duration Index: This gives the average total time in minutes per year that each customer is without supply. A SAIDI of say 100 minutes means that every customer on a particular network experiences an average total time without electricity of 100 minutes per year.

$$\text{SAIDI} = \frac{\text{Sum of interruption duration for all interruptions (Minutes)}}{\text{Average Total number of Consumers}}$$

Transmission losses refers to electricity entering a network which never arrives to be used by a customer. It is generally lost in the form of heat; with the longer the line length the higher the transmission loss.

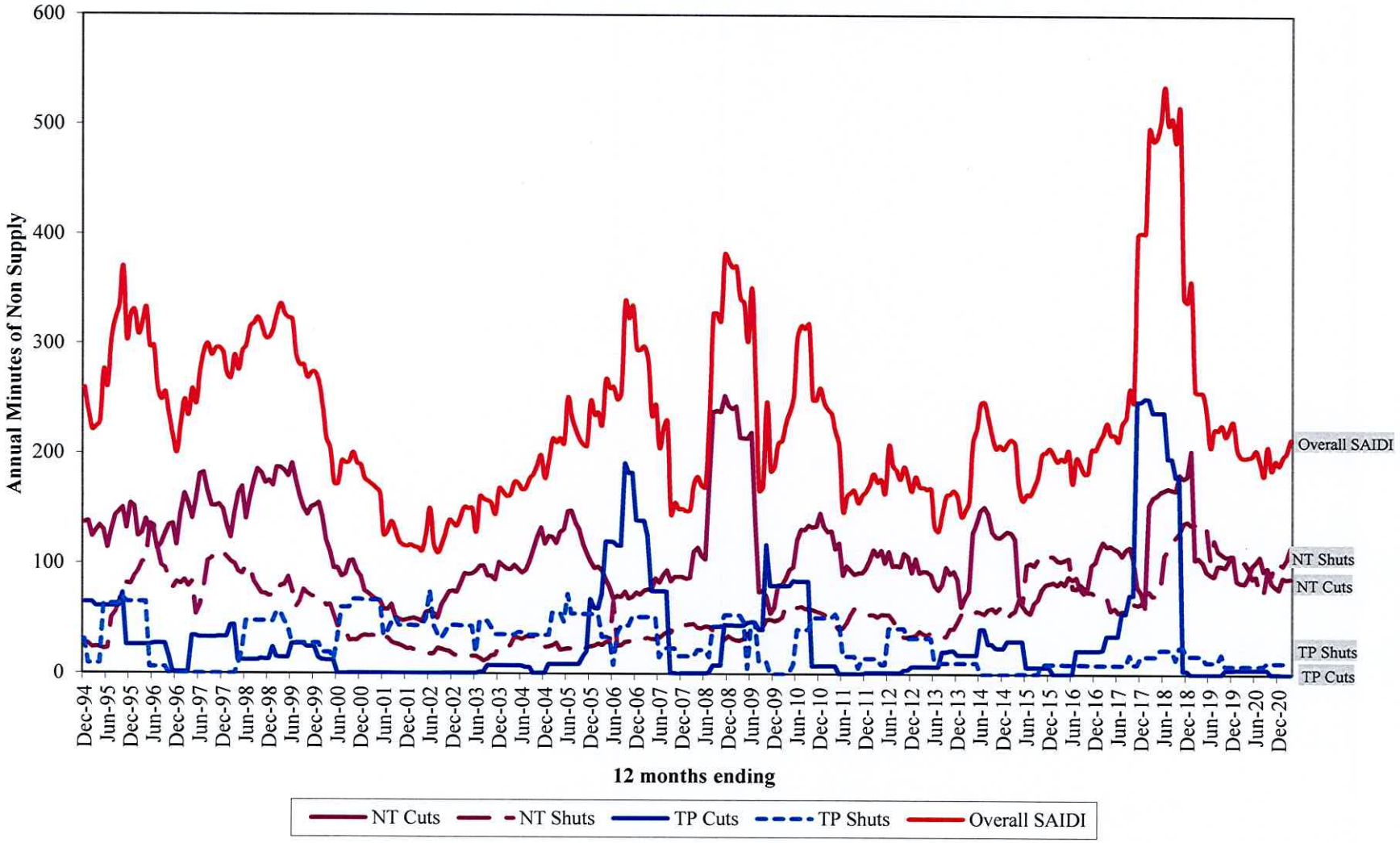
NetworkTasman

12 MONTH ROLLING AVERAGE SAIDI TREND, NT ONLY
(Class B + Class C reliability, as directly managed by NT)



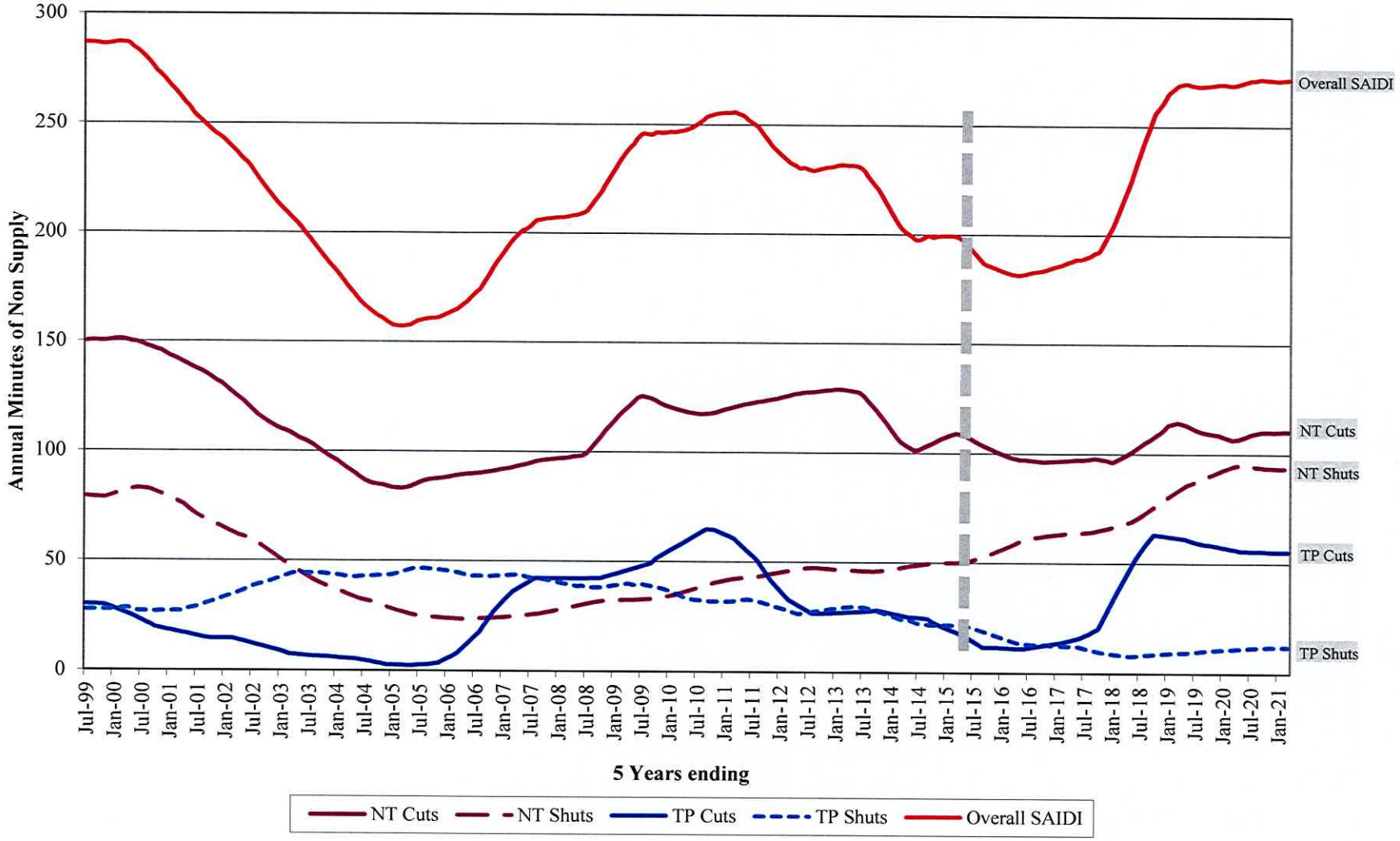
NetworkTasman

NETWORK TASMAN - 12 MONTH ROLLING AVERAGE SAIDI TRENDLINES
(reliability as observed by consumers)



NetworkTasman

NETWORK TASMAN - 5 YEAR ROLLING AVERAGE SAIDI TRENDLINES
(reliability as observed by consumers, last Review date marked)



TOTAL SAIDI Minutes (Classes B & C)

	2015	2016	2017	2018	2019	2020
Alpine	140	415	169	146	177	154
Aurora	130	239	170	408	322	271
Buller	2,747	306	1,051	605	317	250
Centralines	141	107	130	189	158	149
Counties	120	142	345	410	593	330
EA Networks Ashburton	198	100	96	122	197	191
Eastland	256	245	187	257	326	270
Electra	139	329	1,924	412	89	95
Electricity Invercargill	41	38	18	47	22	79
Horizon	173	154	279	1,113	267	268
Mainpower	192	198	546	168	233	343
Marlborough	130	124	354	121	129	174
Nelson Electricity	20	11	36	16	24	12
Network Tasman	**181**	**187**	**186**	**232**	**240**	**185**
Network Waitaki	51	187	126	135	148	124
Northpower	380	134	154	162	182	250
Orion	126	113	80	79	76	68
Otagonet	356	364	324	343	322	345
Powerco	278	220	242	415	311	252
Scanpower	68	55	75	86	172	115
The Lines Co	279	238	329	304	389	333
The Power Co	259	337	187	268	278	396
Top Energy	1,838	608	621	685	460	415
Unison	120	104	216	369	143	120
Vector	496	135	248	307	593	221
Waipa	201	190	204	217	168	269
WEL	105	103	102	137	114	123
Wellington	39	32	131	67	34	34
Westpower	600	140	150	492	164	230

QUARTILES

1	120	107	130	135	143	123	**<= are best**
2	173	154	187	232	182	221	
3	278	239	324	408	317	270	**>= are worst**

Median (=Quartile 2)	173	154	187	232	182	221
NT variation with median	+4.4%	+21.8%	-0.6%	+0.0%	+31.6%	-16.4%

SUMMARY FINANCIAL ANALYSIS:

ACCOUNTS ANALYSED: **NETWORK TASMAN LIMITED**

CONSOLIDATED/

Periods Ending:	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	Draft 31-Mar-21
Number of Months:	12	12	12	12	12	12
AUDITED - Audit Office						
INCOME STATEMENT:	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*
(STATEMENT OF FINANCIAL PERFORMANCE)						
INCOME:-						
SALES (pre customer discounts, excl GST)	47,054	47,881	47,380	58,738	55,263	59,910
OTHER INCOME -	6,965	7,935	10,079	2,319	2,906	3,030
Less TransPower	(14,212)	(15,180)	(14,588)	(14,912)	(12,531)	(12,966)
GROSS PROFIT	39,807	40,636	42,871	46,145	45,638	49,974
Less: Cash overheads	(12,369)	(12,656)	(11,609)	(14,070)	(15,334)	(15,659)
Less: Depreciation	(7,439)	(8,185)	(8,480)	(8,965)	(9,085)	(9,223)
EARNINGS BEFORE INTEREST and TAX	19,999	19,795	22,782	23,110	21,219	25,092
Less: INTEREST COSTS	(512)	(503)	(442)	(191)	(35)	(530)
OPERATING PROFIT BEFORE TAX	19,487	19,292	22,340	22,919	21,184	24,562
Less: TAX PROVISION	(2,589)	(2,606)	(2,816)	(3,789)	(1,097)	(5,219)
Less: MINORITY INTERESTS						
OPERATING PROFIT AFTER TAX	16,898	16,686	19,524	19,130	20,087	19,343
UNREALISED PROFITS/(LOSSES):						
EQUITY ACCOUNTED PROFITS	1,241	1,209	1,147	537	954	814
OTHER - specify	118			144		
NET PROFIT AFTER TAX	18,257	17,895	20,671	19,811	21,041	20,157
EXTRAORDINARY & ABNORMAL ITEMS:						
PROFIT ON SALE OF ASSETS	(190)	(272)	(1,320)	(485)	(154)	(205)
OTHER - specify			1,019			
TOTAL EARNINGS AFTER TAX	18,067	17,623	20,370	19,326	20,887	19,952
APPROPRIATIONS:						
Less: SALES DISCOUNT PROVISION & DIVIDEND	(12,174)	(12,300)	(12,500)	(12,870)	(12,522)	(13,339)
Less: GOODWILL						
Less: OTHER - specify						
RETAINED EARNINGS FOR THE YEAR	5,893	5,323	7,870	6,456	8,365	6,613
Consumer connections (ICP's)	38,761	39,299	39,861	40,390	41,031	41,735
Number of GWh delivered (excl NEL from 2015)	733	737	747	761	746	752
NT Cash cost/kWH	1.69c	1.72c	1.55c	1.85c	2.06c	2.08c
TP Cash cost/kWH	1.94c	2.06c	1.95c	1.96c	1.68c	1.72c
EBIT less discount per ICP	$363	$353	$423	$426	$373	$460

SUMMARY FINANCIAL ANALYSIS:

ACCOUNTS ANALYSED: **NETWORK TASMAN LIMITED**

CONSOLIDATED/

Periods Ending:	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	Draft 31-Mar-21
Number of Months:	12	12	12	12	12	12
AUDITED - Audit Office						
BALANCE SHEET:						
(STATEMENT OF FINANCIAL POSITION)						
PAR VALUE OF SHARES	100c	100c	100c	100c	100c	100c
ORDINARY SHARES ON ISSUE - number	57,185	57,185	57,185	57,185	57,185	57,185
(000)						
	($000)	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*
FUNDS EMPLOYED:						
SHAREHOLDERS FUNDS:						
ISSUED AND PAID UP SHARE CAPITAL($):						
ORDINARY	57,185	57,185	57,185	57,185	57,185	57,185
PREFERENCE						
RESERVES - REVALUATION	50,461	51,105	52,788	54,031	54,696	58,136
- OTHER	73,075	78,398	85,249	91,705	100,070	106,683
Less: INTANGIBLE ASSETS - GOODWILL						
TOTAL SHAREHOLDERS FUNDS	180,721	186,688	195,222	202,921	211,951	222,004
MINORITY INTERESTS						
INTEREST BEARING DEBT	12,411	13,415	6,240	371	250	4,027
CREDITORS	5,990	5,578	6,757	12,192	11,015	13,301
PROVISIONS - DIVIDENDS						
- TAX (Incl deferred tax)	28,797	29,236	29,632	30,919	29,133	31,796
	227,919	234,917	237,851	246,403	252,349	271,128
EMPLOYMENT OF FUNDS:						
FIXED ASSETS	179,934	183,923	184,902	190,666	198,359	209,733
LONG TERM INVESTMENTS:						
ASSOCIATES - SHARES & Advances	15,670	17,129	18,076	17,566	17,220	17,084
Properties	24,270	25,279	27,157	29,459	30,323	34,040
OTHER	259	259	259			
STOCKS						
DEBTORS AND PREPAYMENTS	5,671	5,569	5,846	6,643	5,930	6,202
CASH AND SHORT TERM INVESTMENTS	2,115	2,758	1,611	2,069	517	4,069
	227,919	234,917	237,851	246,403	252,349	271,128
CONTINGENT LIABILITIES	2,086	1,151	5,422	2,700	8,200	
(Incl next 12 months Lease commitments)						
TOTAL CURRENT ASSETS	12,520	14,211	14,191	8,712	10,436	14,010
TOTAL CURRENT LIABILITIES	6,659	6,111	10,394	13,134	11,769	14,298
bal check	y	y	y	y	y	y

SUMMARY FINANCIAL ANALYSIS:

ACCOUNTS ANALYSED: **NETWORK TASMAN LIMITED**

CONSOLIDATED/

Periods Ending:	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	Draft 31-Mar-21
Number of Months:	12	12	12	12	12	12
AUDITED - Audit Office						
DEBT PROFILE:	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*
SECURED:						
BNZ Overdraft						
Various Other						
Transpower Finance leases	217	415	240	121		4,027
UNSECURED:						
Deferred Income						
(Capital contributions from customers)						
BNZ Negative Pledge	12,194	13,000	6,000	250	250	
	12,411	13,415	6,240	371	250	4,027
CURRENT PORTION	217	174	3,111	121	250	851
RATIO ANALYSIS:						
INTEREST COST COVER - times	39.1x	39.4x	51.5x	121.0x	606.2x	47.3x
EARNINGS - cents per closing share no.						
BEFORE EXTRAORDINARY ITEMS	31.9cps	31.3cps	36.1cps	34.6cps	36.8cps	35.2cps
AFTER EXTRAORDINARY ITEMS	31.6cps	30.8cps	35.6cps	33.8cps	36.5cps	34.9cps
EBIT/AVERAGE FUNDS EMPLOYED - % (inc minority interests)	10.6%	10.1%	11.3%	11.4%	10.2%	11.5%
EQUITY RATIO (SHF/ASSETS) - %	79.3%	79.5%	82.1%	82.4%	84.0%	81.9%
NET TANGIBLE ASSETS PER SHARE - c	316c	326c	341c	355c	371c	388c
CURRENT RATIO	188%	233%	137%	66%	89%	98%
Productivity: Sales/Fixed assets (non revalued)	0.26x	0.26x	0.26x	0.31x	0.28x	0.29x
Cashflow: Cash Profit - EBITDA margin	43.5%	41.9%	44.7%	50.7%	49.6%	52.2%
NPBT/Closing Assets	8.5%	8.2%	9.4%	9.3%	8.4%	9.1%

SUMMARY FINANCIAL ANALYSIS:

ACCOUNTS ANALYSED: **NETWORK TASMAN LIMITED**

CONSOLIDATED/

Periods Ending:	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	Draft 31-Mar-21
Number of Months:	12	12	12	12	12	12
AUDITED - Audit Office						
FUNDS STATEMENT:	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*
CASH INFLOW/(OUTFLOW) FROM OPERATIONS:						
OPERATING PROFIT BEFORE TAX	19,487	19,292	22,340	22,919	21,184	24,562
DEPRECIATION	7,439	8,185	8,480	8,965	9,085	9,223
OTHER NON-CASH/(CASH)	0	0	0	0	0	0
TAX PAID	(2,114)	(2,167)	(2,420)	(2,502)	(2,883)	(2,556)
WORKING CAPITAL (INCREASE)/DECREASE						
STOCKS	0	0	0	0	0	0
DEBTORS AND PREPAYMENTS	(62)	102	(277)	(797)	713	(272)
CREDITORS	134	(412)	1,179	5,435	(1,177)	2,286
CASH SURPLUS/(DEFICIT) FROM OPERATIONS	24,884	25,000	29,302	34,020	26,922	33,243
INVESTING ACTIVITIES:						
DIVIDENDS and Cust. Discounts PAID	(12,174)	(12,300)	(12,500)	(12,870)	(12,522)	(13,339)
NETT FIXED ASSETS - Sold						
- (Purchased)	(16,072)	(12,446)	(10,779)	(15,214)	(16,932)	(20,802)
NETT INVESTMENTS - Sold						
(Incl. MI and G'will movement) - (Purchased)	(3,304)	(615)	5	391	1,101	673
TOTAL FUNDS SURPLUS/(NEED)	(6,666)	(361)	6,028	6,327	(1,431)	(225)
SOURCE/(DISPOSITION) OF FUNDS:						
SHARE ISSUES	0	0	0	0	0	0
CASH DEPOSITS (INCREASE)/DECREASE	2,009	(643)	1,147	(458)	1,552	(3,552)
INTEREST BEARING DEBT -INCR/(DECR)	4,539	1,004	(7,175)	(5,869)	(121)	3,777
FX TRANSLATION RESERVE	118	0	0	0	0	0
TOTAL FUNDS PROVIDED/(DISPOSED OF)	6,666	361	(6,028)	(6,327)	1,431	225
bal check	y	y	y	y	y	y
SURPLUS FROM OPERATIONS / AVGE T.A.	11.2%	10.8%	12.4%	14.1%	10.8%	12.7%

Appendix D

TOTAL Cash Costs $/ICP

PWC page	*121*	*128*	*128*	*128*	*128*	*128*	
	2015	*2016*	*2017*	*2018*	*2019*	*2020*	
Alpine	*436*	*462*	*444*	*521*	*551*	*638*	
Aurora	*278*	*293*	*315*	*399*	*476*	*527*	One of best to one of worst
Buller	*673*	*666*	*688*	*618*	*547*	*499*	
Centralines	*420*	*385*	*400*	*418*	*466*	*468*	
Counties	*293*	*291*	*321*	*309*	*344*	*362*	
Electricity Ashburton	*495*	*540*	*536*	*628*	*613*	*671*	
Eastland	*309*	*372*	*364*	*389*	*394*	*444*	
Electra	*268*	*239*	*245*	*272*	*271*	*288*	
Electricity Invercargill	*240*	*247*	*278*	*264*	*283*	*296*	
Horizon	*322*	*363*	*350*	*413*	*377*	*407*	No cost saving ex NZX listin
Mainpower	*285*	*371*	*433*	*385*	*433*	*460*	
Marlborough	*506*	*529*	*640*	*589*	*593*	*636*	
Nelson Electricity	*207*	*193*	*219*	*208*	*233*	*225*	
Network Tasman	***258***	***270***	***264***	***277***	***263***	***279***	
Network Waitaki	*362*	*352*	*395*	*418*	*486*	*519*	
Northpower	*278*	*274*	*287*	*376*	*415*	*449*	
Orion	*267*	*289*	*284*	*271*	*294*	*298*	
Otagonet	*542*	*428*	*411*	*455*	*522*	*514*	
Powerco	*200*	*210*	*220*	*209*	*258*	*261*	
Scanpower	*239*	*303*	*339*	*538*	*513*	*534*	
The Lines Co	*427*	*474*	*497*	*513*	*601*	*675*	
The Power Co	*411*	*428*	*414*	*417*	*450*	*476*	
Top Energy	*424*	*466*	*454*	*506*	*479*	*587*	
Unison	*318*	*320*	*316*	*341*	*347*	*377*	
Vector	*208*	*199*	*196*	*203*	*216*	*225*	
Waipa	*213*	*229*	*245*	*251*	*300*	*306*	
WEL	*206*	*243*	*287*	*275*	*249*	*272*	
Wellington	*154*	*178*	*181*	*200*	*203*	*190*	
Westpower	*718*	*598*	*635*	*634*	*652*	*680*	
QUARTILES							
1	240	247	278	272	283	296	**<= are best**
2	293	320	339	389	415	449	
3	424	428	433	506	513	527	**>= are worst**
Median (=2nd quartile)	293	320	339	389	415	449	8.9% 5 year
NT var with median	***-11.9%***	***-15.6%***	***-22.1%***	***-28.8%***	***-36.6%***	***-37.9%***	
Cost baseline as 2015	*100%*	*109%*	*116%*	*133%*	*142%*	*153%*	CAGR 5.5% 10 year

FILENAME: Charts for report - new 2021; Appendix D1 Total Costs

Source: PWC compendiums

Appendix E

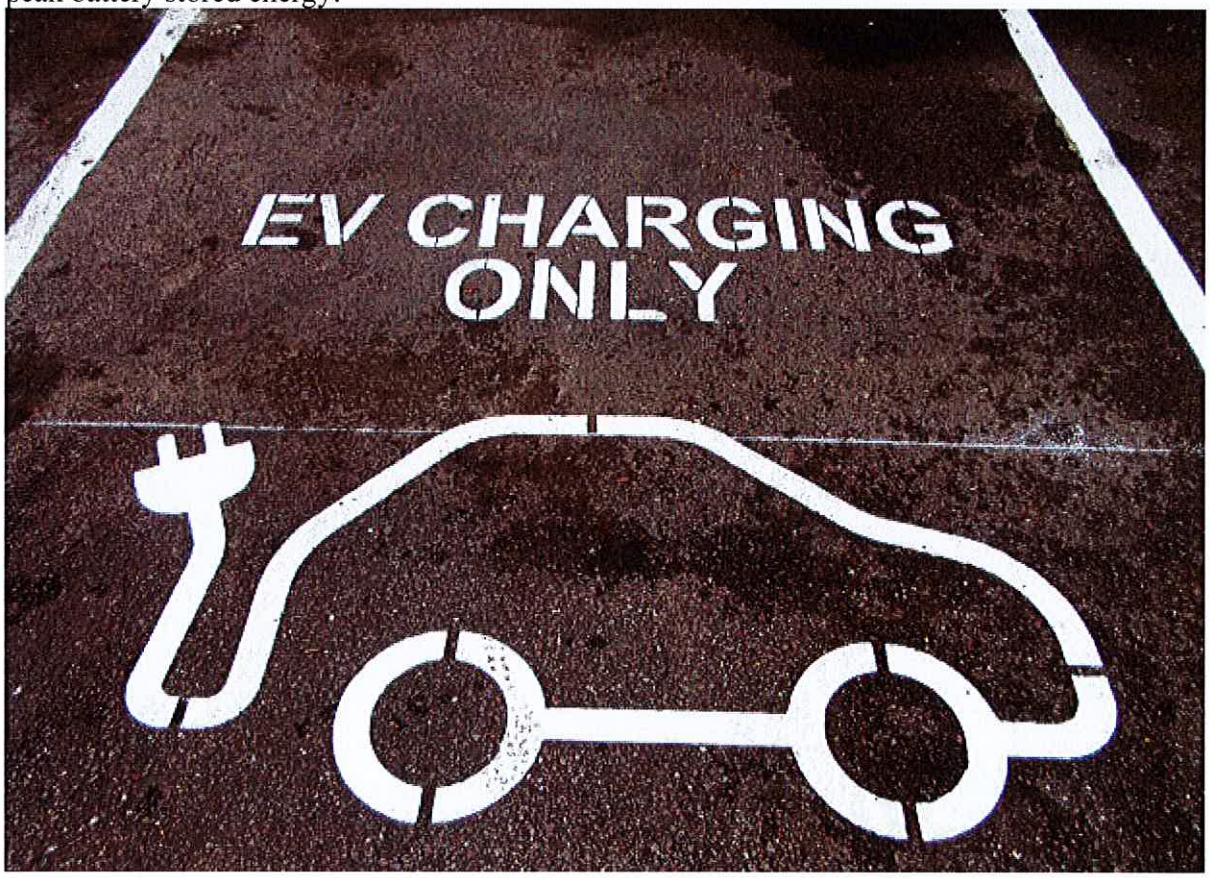
A glimpse of the future: From Australian Financial Review 15 June 2021
Chanticleer

Start-up to build EV charging network

At a time when big business is accused of greenwashing, a Sydney-based company is planning on turning a network of car wash sites into the country's second-largest electric vehicle charging network.

A start-up that plans to convert a network of car wash outlets into a national electric vehicle charging station business says it can undercut Tesla's EV charging rate by about 80 per cent.

Bell Resources, which has no relationship to the company stripped of all its cash by Alan Bond in the 1990s, says it can sell energy to EV owners at a cost price of 10¢ a kilowatt because of the combination of rooftop solar, car wash revenues and the draw down of off-peak battery stored energy.



Electric vehicles made by Audi, Mercedes, Porsche, Tesla, Lucid and Rimac have 350kW+ charging capability and can be fully charged in less than 10 minutes. **Getty**

Chief executive Mark Avery says this charging price compares well with the rate charged at Tesla charging stations of 52¢/kW.

Avery says Bell Resources has acquired 63 car wash businesses (and seven freehold car wash properties and three greenfields sites) across Victoria, ACT, NSW, Queensland, South Australia and Western Australia under option deeds.

It plans to install ultra-fast direct current (DC) charging stations made by Swedish company ABB at its car wash sites and rebrand them as the "Bell Hub" brand.

A 350kW DC fast charger can add about 30 kilometres on range to an EV in one minute.

The Bell Resources move is significant because it involves building resilient infrastructure that will help remove the "range anxiety" that many believe is holding back the uptake of EVs in Australia.

A report prepared for Bell Resources by consultancy Frost & Sullivan says there are now five charging networks in Australia: Chargefox, which has about 500 public chargers in operation, including 20 ultra-rapid charging stations; the City of Adelaide, which has 40 chargers; NRMA, which has 39 chargers; Tesla, which has 36; and the RAC Western Australia, which has 11 chargers.

Chargefox's ultra-rapid stations have up to four 350kW ultra-rapid and two 50kW fast chargers each. The company manages the Queensland Electric Super Highway, a network of 31 fast charging sites in the state.

Emerging competitors include Evie Networks, which is building a charging network comprised of 80 ultra-fast charging stations at 42 locations to connect the main Australian cities.

Frost & Sullivan says it will be using California-based EV Connect's cloud-based software platform to manage its network.

Chinese fast-charging start-up XCharge is looking to set up a network with at least 1000 DC fast chargers in Australia and is collaborating with Southern Sustainable Electric Australia, according to Frost & Sullivan.

Avery says car wash sites are ideal for EV charging because they are built for high volume vehicle movement, have no site contamination issues and are exempt from having to obtain EV development approval in most states.

More importantly, car wash sites do not face the combustion safeguard rules that affect petrol stations. Under Australian standards, an EV charging station must be at least 12 metres from a fuel bowser or fuel vent pipe.

Avery is not concerned about the federal government's lack of strong support for EVs because state governments are taking the lead.

He says public charging stations will be integral to EV adoption in Australia given about 14 per cent of dwellings are apartments, units or townhouses and about a third of Australians live in rental accommodation.

Another factor in favour of EV adoption is that 2.3 million trading businesses will look to expense the cost of running an EV.

A presentation for potential investors in Bell Resources says the company would have made a net profit before tax of $9.79 million in the year to June 2020. It forecasts revenue will rise from $37 million in 2020 to $100 million in 2023.

The document says gross profit from charging EVs would be 70 to 80 per cent, and gross profit from car washes 30 to 35 per cent.

Tony Boyd is the Chanticleer columnist. He has more than 35 years' experience as a finance journalist.