NORTHPOWER
ELECTRIC POWER TRUST

OWNERSHIP REVIEW 2022

Report by the Directors of Northpower Ltd and Comments on the report by the Northpower Electric Power Trust

NORTHPOWER
ELECTRIC POWER TRUST

Introduction

Our electricity lines company, Northpower Ltd is owned by its consumers – those people and businesses connected to the network and receiving electricity through the Northpower lines.

The consumers' interests as owners are looked after by the Northpower Electric Power Trust.

Five trustees are elected by the voters of the Whangārei District and two are elected by the voters of the Kaipara District.The last election took place in November 2019 and the next election will be in November 2022.

The present Trustees are:

Whangārei District	Erc Angelo (Chair)
	Irene Durham
	Phil Heatley
	Bill Rossiter
	Paul Yovich
Kaipara District	Sheena McKenzie (Deputy Chair)
	Chris Biddles
Trust Secretary	Brent Martin, Plus Chartered Accountants Ltd

Your elected trustees are bound by the Trust Deed and have two main responsibilities. The first is to appoint Directors to Northpower Ltd, agree with them on the objectives for the company each year and to monitor the performance of the company to ensure it properly serves the electricity consumers of Kaipara and Whangārei.

The second (and equally important) responsibility of trustees is to receive details of the Company's posted discounts for consumers, along with any dividend payment from Northpower Ltd and to ensure distribution of both of them in accordance with the Trust Deed.

The Trustees report publicly each year to consumers on how they have carried out their ownership responsibilities and on their plans for the following year. The 2021 Northpower Trust Annual Report can be found at http://northpower.com/about/ownership/trust-reports.

Every five years, Trustees must consult with consumers regarding the future ownership of Northpower Ltd.

This ownership review process commences with the publication of this report and the public is now invited to make submissions to the Northpower Electric Power Trust on the future ownership of the shares in Northpower Ltd.

a. Overview

Pursuant to an Establishment Plan approved by the Minister of Energy on 17 October 1990 and the vesting of the assets of the North Auckland Electric Power Board in Northpower Limited (the Company) on 1 May 1993, the shares in the Company were issued to the seven Trustees of the Northpower Electric Power Trust (the Trust) whose beneficiaries are the consumers of the Company.

The Trust Deed provides that within four years of the date of the Deed (29 March 1993), and then within every five years thereafter, the Trustees shall require the Directors of the Company to prepare a report considering proposals and options for future ownership of the shares in the Company.

Such report shall contain (Clause 4.1)

- **a.** An analysis of the performance of the Company to the date of the report, together with a discussion of the advantages and disadvantages of Trust ownership;
- **b.** An analysis of the various ownership options considered including without limitation, a share distribution to consumers or electors, a sale of shares to the public, a sale of shares to institutional investors and retention by the Trust;
- **c.** A comparison of the performance of the Company with the performance of other line companies;
- **d.** The conclusions of the Directors as to the most appropriate form of ownership together with an indication as to whether the conclusions are unanimous and if the decision is not unanimous, a summary of the views of the dissenting Directors shall be included;
- **e.** The matters contained in Clause 4.6 if a distribution of shares is recommended;
- **f.** A summary of the professional advice (if any) obtained in respect of the preparation of the report; and
- **g.** A statement as to whether or not the Directors have had regard to any views expressed by the public with respect to ownership.

Clause 4.2 requires the Trustees to comment on the report to the Directors of the Company and upon completion of this review the Trustees shall make the report available to the public together with a summary of their comments.

The Trustees and the Directors of the Company shall in respect of the report and no later than one month after the date of the report (report received 1 February 2022, therefore by 1 March 2022) implement the public consultative procedures.

Finally, under Clause 4.4

Following completion of the public consultative procedure and in any event no later than six months after the report required by Clause 4.1 is completed, the Trustees and the Directors shall meet and, after taking due account of the views expressed by the public and the Directors, the Trustees shall decide whether to:

- **a.** Retain the shares in the Trust; or
- **b.** Dispose of a portion of the shares and retain the remainder in the Trust; or
- **c.** Dispose of all the shares.

If the shares are to be retained by the Trust the Trustees shall notify the public.

The Trust Deed provides for the public to be consulted and for people who make submissions to be given a reasonable opportunity to be heard by the Trustees.

Submissions in writing must be in the hands of the Trustees within two months of advertising the public consultative procedure. Following that date public meetings shall be arranged as necessary to hear submissions.

b. Comments

On 1 February 2022 the Trustees received the report from the Directors on the ownership review of the Company.

The Trustees comment as follows:

The Trustees confirm that the report includes the requirements of the Trust Deed.

The Trustees would like to draw particular attention to the following issues set out in the Directors report to fulfil the requirements of the Trust Deed clause 4.1:

The analysis of the performance of Northpower Ltd over the five years since the last ownership review (Appendix B).

A detailed review of the various ownership options listing potential advantages and disadvantages of each together with an analysis of different ownership options against the objective of Northpower Ltd (Appendix C).

The recommendation of the Directors in the letter of 1 February 2022 to retain the current model.

The Trustees look forward to the public consultative procedure and on its completion, to meeting with the Directors to carefully consider the views expressed by the public and the Directors.

The final decision on the future ownership of Northpower Ltd will be considered by the Trustees at a meeting which is open to the public.

Erc Angelo
Chairman of Trustees
Whangārei 28 February 2022

Submissions

Persons interested in the ownership issue are now invited to make submissions on this matter in accordance with the provisions of the Trust Deed.

Written submissions should be addressed to:

Submissions to the Trustees
Northpower Electric Power Trust
P O Box 1609
WHANGĀREI

Email submissions sent to **nept@plusca.co.nz**

Your submission should indicate if you want the Trustees to:

- **a.** Retain the Northpower Ltd Shares in the Trust or
- **b.** Dispose of a portion of the Shares and retain the remainder in the Trust or
- **c.** Dispose of all the Shares.

and must be received at the above address no later than 4.00 pm on 28 April 2022.

Submitters should indicate if they wish to be heard in support of their submission.

Following the receipt of submissions, the Trustees will arrange opportunities for submitters to be heard.

The "Hearing of Submissions" meeting will be held on 26 May 2022 at McKay Stadium, Kensington Sports Park, 97 Western Hills Drive, Kensington.

In accordance with the Trust Deed, this meeting will be open to the public and all written submissions will be available to the public.

Trustees will complete the public consultation by meeting on 9 June 2022 to deliberate on the submissions received and to make their decision. This meeting will be open to the public.

Trustees
Northpower Electric Power Trust (NEPT)
PO Box 1609
Whangārei
1 February 2022

Dear Trustees

Northpower Limited Ownership Review

Northpower Limited (Northpower) Directors commissioned an independent ownership review, in line with the process set out in our letter to you of 3 June 2021 and the requirements of the NEPT Trust Deed (Deed). We attach the report from that review to this letter (Report).

The Report noted that retaining the shares in Northpower under trust ownership, held on trust on behalf of Northpower's consumers by the NEPT remains a sound approach. Directors have considered this advice and have formed the view that trust ownership remains the most appropriate ownership structure.

Directors are comfortable that the process undertaken and the contents of this letter and the Report meet the requirements set out in sub-clauses 4.1(a)-(g) of the Deed. Directors have formed their own conclusions in line with subclause 4.1(d)of the Deed.

Professional Advice

Directors commissioned PwC to undertake the analysis required by the Deed. This professional advice is summarised in the Report attached and includes:

a) analysis of Northpower's performance and a discussion of the advantages and disadvantages of trust ownership;

b) analysis of the various ownership options considered including, a share distribution to consumers or electors, a sale of shares to the public, a sale of shares to institutional investors and retention by the trust; and

c) comparison of Northpower's performance with the performance of other similar companies.

Key Findings

PwC noted in its advice that operating under the trust model, Northpower has improved its financial performance over the review period and refocussed on its three core businesses.

It further noted that Northpower is expected to continue to perform if the NEPT maintains clear expectations for it, which balance financial and non-financial considerations and the interests of current and future beneficiaries.

PwC commented that the NEPT governance role allows it to represent the interests of the beneficiaries through the appointment of Directors and contributing to the annual Statement of Corporate Intent. A strong level of Board governance and oversight will continue to drive strong performance.

Northpower

Northpower Limited
28 Mt Pleasant Road
Raumanga
Whangārei

Private Bag 9018
Whangārei Mail Centre
Whangārei 0148

09 430 1803
info@northpower.com

Director conclusions

Directors considered the professional advice at their Board meeting of 27 October 2021. Directors discussed the alternative ownership options identified in the Report and concluded that the current consumer trust ownership structure is appropriate given it:

- is value accretive for consumer-owners;
- does not constrain future value creation or restrict capital structure options for subsidiary businesses; and
- is appropriate for the next five years as there is no immediate need for capital release from NEPT.

Directors concluded unanimously that Trust ownership remains the most appropriate form of ownership.

Public Consultation

Directors have not, as part of commissioning the Report and writing this letter, had regard to views expressed by the public with respect to ownership. Directors acknowledge that public views will be canvassed and taken into account though the public consultation phase of the ownership review.

Next steps

In line with clause 4.2 of the Deed, Directors invite NEPT trustees to provide comments on the Report and this letter in the form of a written response to Directors.

In line with the Deed, public consultation would be led by the Trust, Directors are comfortable to provide support from the Northpower Management Team in a logistical support capacity if this is beneficial to Trustees.

Yours sincerely

Mark Trigg
Chair

Attachment: PwC Northpower Ownership Review- Summary report for NEPT November 2021

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NORTHPOWER
ELECTRIC POWER TRUST

Northpower Ownership Review

Andrew Wilshire
GM Business Performance
Northpower Limited
Private Bag 9018
Whangārei 0148

24 January 2022

Northpower Ownership Review – Final Report

Dear Andrew,

We are pleased to present our summary report which has been prepared for the Northpower Electric Power Trust (NEPT) as required under the NEPT Deed.

This report has been prepared in accordance with our letter of engagement dated 6 July 2021 and is to be read in conjunction with the terms and conditions set out within that document, and the restrictions set out in Appendix A of this report.

This summary report can be made available for public inspection in accordance with the requirements of the NEPT Deed.

Yours sincerely,

Lynne Taylor
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Introduction

Introduction and purpose

This report has been prepared for the Directors of Northpower Limited (Northpower) to support the periodic review of the Northpower Electric Power Trust's (NEPT) ownership of Northpower.

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

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

This report presents a summary of our findings, comprising our:

1. review of Northpower's performance over the last five years (FY17 – FY21, the review period)
2. review of Northpower's electricity distribution business (EDB) performance against comparable companies
3. analysis of ownership options available to the Trust and its beneficiaries, including the current trust ownership structure.

Supporting analysis is presented in the appendices.

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

Summary

Group overview

Northpower is an electricity distribution company and parent company for Northpower Fibre Limited. Northpower also provides specialist contracting services to other network owners and operators, across the North Island of New Zealand.

Northpower owns and operates the electricity network supplying over 60,000 connections in the Whangārei and Kaipara districts.

Northpower's revenue and operating earnings have grown over the five-year review period, with significant growth in the contracting and fibre businesses.

Over the review period, Northpower has established a balanced portfolio of businesses which can be expected to generate surpluses for future investments, including investment in the electricity network and future strategic opportunities.

The financial position reflects a low level of debt relative to the value of the assets. Northpower's total assets increased significantly in FY20 and FY21 due to investment in the network.

As Northpower is consumer owned, it does not have the ability to raise equity from its owners. Northpower's low level of debt indicates it has borrowing capacity to meet future network investment requirements, withstand operating shocks and potentially invest in new value-add business ventures under the existing ownership structure.

The statement of corporate intent (SCI) is agreed annually between the Trust and Company, and outlines the objectives for the Company for the next three years. It includes target metrics for key performance outcomes across the business.

- Northpower achieved most of its financial SCI targets from FY18 to FY21 due to the strong financial performance of all business units following business restructures in FY17.
- The health and safety targets have largely not been met. As a consequence, the Company has taken steps to restructure its approach to health and safety, focussing on critical risk controls.
- The electricity network met all of its customer satisfaction targets, and had mixed results against the network performance targets. The enhanced network investment programme is expected to deliver improved network performance in the future.
- The fibre network was within 10% of target or exceeded all performance targets in FY19 to FY21. FY19 was the first year that fibre network targets were included in the SCI.

Comparative performance

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

- Northpower's returns were similar in FY17-FY19, but lower from FY20 reflecting the introduction of posted line charge discounts.
- Unit prices have remained relatively flat since FY17 (ignoring the impact of posted discounts) and slightly higher than the peer group and industry averages for customers on standard contracts.
- Opex has been increasing, in line with industry trends, reflecting investment in improved business capability.
- Network capex has increased significantly in FY19 to FY21, consistent with industry trends.
- Network outage durations have fallen below peer group and industry averages but increased in recent years. Network outage frequency exceeds the benchmarks. Planned outages have increased as network maintenance and renewal activity has increased.

Summary

Outlook for the Company

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

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

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

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

Strategic direction

Since the previous ownership review, the Northpower Group has focussed primarily on its three core, complementary businesses. Together these businesses provide Northpower with the scale, capability and financial capacity to enhance and grow the business.

As the contracting business requires less capital than the network businesses, it is able to generate high returns and free cash which is available for investment in other businesses.

Over the past few years, surpluses from contracting have assisted Northpower to maintain prudent debt levels, while investing in its electricity and fibre network assets.

Trust overview

NEPT holds the shares in Northpower Limited. The Trust Deed ensures that Northpower's consumers as income and capital beneficiaries and electors as potential capital beneficiaries benefit from ownership of the Company.

NEPT's primary objective is to represent the beneficiaries by supporting 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. The Trust's annual letter of expectations to the Company is consistent with this primary objective.

The Trustees are publicly elected every three years. We understand that the relationship between Trustees and the Company is strong, and the board and management of the Company regularly update the trustees. The Trust is active in agreeing the annual SCI with the Company.

The Trust appoints the Directors of the Company and monitors the performance of the Director group. The current Board has an appropriate mix of commercial and industry experience and has effectively refocused the business to improve the performance of the Company over the review period.

The Trust has a focus on the needs of the Northland and Kaipara communities and the benefits that Northpower's activities can deliver to these communities.

Summary

Ownership options

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

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

Status quo – Trust ownership

Operating under 100% trust ownership, Northpower has successfully refocussed it operations on its core businesses and enhanced the capability of those businesses during the review period. Current and future Trust beneficiaries have been served well by the Company's execution of its strategy which will enable it to continue to take advantage on the wider business opportunities in the electricity sector.

The Company has established sufficient financial capacity to provide funding headroom for future investment, while maintaining its income distributions to beneficiaries through line charge discounts and dividends.

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

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

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

Within the current Northpower Group, the contracting business operates with a different risk profile than the monopoly infrastructure networks providing the opportunity for enhanced return and cash generating capability. Conversely some volatility of earning can be expected.

If Northpower were to become capital constrained, divestment of all or part of the contracting business and/or Northpower Fibre may be a reasonable solution. Diversity in the group provides flexibility to realise returns in excess of regulatory benchmarks and to manage capital structure. Diversity in the group also creates options for divestment if needed.

Summary

Conclusion

Operating under the trust model, Northpower has improved its financial performance over the review period and refocussed on its three core businesses. This has included:

- reset of the senior executive team, including the appointment of a new CEO
- divestment of under performing non core businesses
- an independent review of the Company's network asset management plan (AMP) and commitment to a $200m programme of works from FY19-FY28 to reinforce and renew the network assets. This investment is expected to improve network performance
- improved contracting financial performance and investment in business capability. Surpluses from the contracting business have been invested in renewing electricity assets and building the fibre business
- purchase of the remaining shares in Northpower Fibre from Crown Infrastructure Partners (CIP), and near completion of the fibre roll out in Northland
- an independent review of the capital structure of the Company, to confirm the financial resilience of the Group and quantify the capacity for additional future investment
- managing borrowing levels to provide capacity for core businesses to navigate unforeseen market shocks
- investment in core business systems and processes, and bedding in the shared services model with the capability and capacity to support future growth and development
- refining the Company's health and safety strategy, encouraging safety participation and leadership throughout the organisation
- distributing $36m of line charge discounts and dividends to the NEPT for the benefit of the customer beneficiaries
- contributing to the wellbeing of the local community.

The Company can be expected to continue to perform if the Trust maintains clear expectations for the Company which balance financial and non-financial considerations, and the interests of current and future beneficiaries.

A distribution of shares to beneficiaries would raise inter-generational equity issues, with value passed to current beneficiaries at the expense of future beneficiaries. Customers would lose future distributions, access to future growth in the value of the Company, and may have less influence over future prices and quality of service as a result.

The Trust's governance role allows it to represent the interests of the beneficiaries through the appointment of Directors and contributing to the annual SCI. It is expected that a strong level of board governance and oversight will continue to drive strong performance.

The Trust can encourage investment and initiatives which deliver financial growth, while allowing the Company the flexibility to pursue new opportunities consistent with its strategic objectives.

Appendix A

Restrictions

Restrictions

This report has been prepared to assist the Directors of Northpower Limited with the five yearly ownership review of the Northpower Electric Power Trust (NEPT) as required under the NEPT Trust Deed. This report has been prepared solely for this purpose and should not be relied upon for any other purpose. We accept no liability to any party should it used for any purpose other than that for which it was prepared.

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

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

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

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

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

This report is issued pursuant to the terms and conditions set out in our engagement letter dated 6 July 2021.

Appendix B

Performance analysis

Network overview

Overview of Northpower's network

Northpower owns and operates the electricity network supplying over 60,000 connections in the Whangārei and Kaipara districts. The network includes 6,113km of overhead and underground power lines, transformers and additional assets such as switchgear and circuit breakers.

Northpower takes supply from the national grid at Transpower's Bream Bay (33kV), Maungatapere (110kV) and Maungaturoto (33kV) substations. Northpower also has two embedded generation stations; the 5MW Wairua hydro power station owned by Northpower and Trustpower's 9MW diesel powered peaking plant.

Due to Northpower's consumer ownership model, it is currently exempt from the Commerce Commission's price-quality regulation but is subject to information disclosure regulation. As a consumer owned EDB, Northpower does not have to comply with a regulated revenue cap or network reliability standards. Instead it must disclose the financial and non-financial performance of the network to the public, and the Commerce Commission.

The EDB is also an electricity market participant, subject to the Electricity Industry Participation Code which regulates the role of local distribution networks within the electricity market. This regulation includes pricing guidelines, use of system contracts, and billing and reconciliation procedures for the multiple electricity retailers which retail electricity to customers connected to Northpower's network.

Over the past five years, connections have grown by 5.5% which is in line with population growth for the region. The volume of electricity delivered increased by 3.3% from FY17 to FY20. Consumption subsequently declined by 13.2% in FY21 due to reduced demand from industrial consumers.

Current government policy settings will increase the electrification of transport and industrial processes throughout New Zealand in order to meet net carbon-zero targets by 2050. This means that demand for electricity across New Zealand, including the Northland region, is expected to increase for the foreseeable future.

Table 1: Network characteristics (FY21)

Residential consumers	50,087
Number of connections (ICPs)	61,115
Circuit kms	6,113
Connection point density (ICP/km)	10
Energy intensity (kWh/ICP)	15,496

Table 2: Network growth (FY17-FY21)

Connections	5.5%
Electricity delivered (kWh)	(10.3%)
Installed capacity (MVA)	6.2%
Circuit length (kms)	2.2%
Regulatory asset base (RAB)	15.5%

Group highlights

Group strategy

At the start of the review period, Northpower implemented a strategy of focusing on its Northland networks and New Zealand contracting operations, strengthening its core business systems and processes and divesting its other interests including the West Coast Energy contracting business located in Australia and property. This strategy has resulted in an uplift in earnings as the Company exited its poorer performing businesses.

Northpower has now become a Top 200 New Zealand company by revenue, with over 1,200 employees serving customers across the North Island.

Network

A key outcome of Northpower's renewed focus is to ensure the core electricity network business is efficient, well maintained and positioned for future growth. An independent review of the Company's 10 year AMP resulted in the Board committing to a $200m enhanced expenditure programme from FY19-FY28.

The programme was implemented to ensure a safe, secure and resilient network capable of supporting new technologies such as electric vehicles (EVs), roof top solar and energy storage technologies.

Northpower has upgraded its core control systems to support more complex energy flows, including implementing common industry standards and frameworks, and modernising the way it communicates with customers.

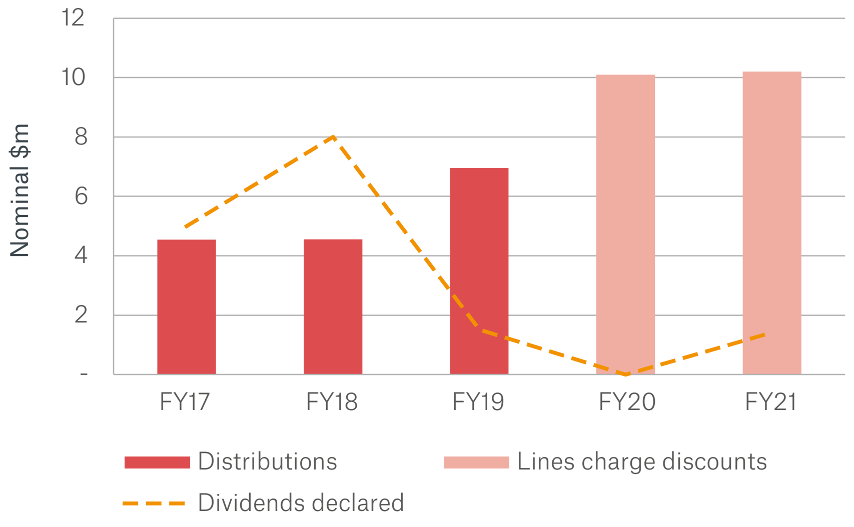
Northpower has also received co-funding from the Energy Efficiency and Conservation Authority (EECA) Low Emission Vehicles Contestable Fund to trial vehicle to grid technology on its network.

Consistent with sector developments, during FY19 and FY20, Northpower trialled time-of-use pricing (TOU) to better reflect the costs of electricity distribution services to customers. In FY21, it implemented TOU pricing to consumers on standard contracts.

Distributions and discounts to consumer beneficiaries have been rising over the review period as shown in figure 1. Consumer beneficiaries received a total of $36m in distributions and discounts over the review period.

Northpower introduced line charge discounts from FY20. The discount replaced dividends in the latter years of the review period.

Figure 1: Discounts and distributions to consumers



Note: dividends declared in each financial year are generally distributed in the following year

Group financial performance

Financial performance

Over the review period, Northpower has established a balanced portfolio of businesses which can be expected to generate surpluses for future investments, including electricity network renewal, growth and future strategic opportunities.

Figures 2 and 3 are shown pre-line charge discounts to ensure comparability across the review period.

Northpower's revenue and EBITDA have grown over the five-year review period, with significant growth in the contracting and fibre businesses. Revenue from contracting increased at a compound average growth rate (CAGR) of 7.3% over the review period.

Northpower made a loss in FY17 due to the closure of West Coast Energy.

Substantial returns to shareholders, via dividends and line charge discounts have been achieved over the review period. Additional surpluses have been invested in the electricity and fibre networks, along with improved infrastructure for the contracting business.

Figure 2: Northpower revenue

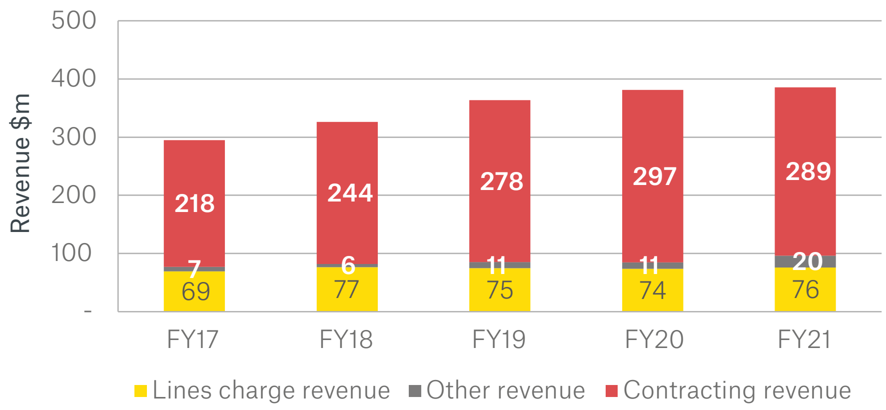
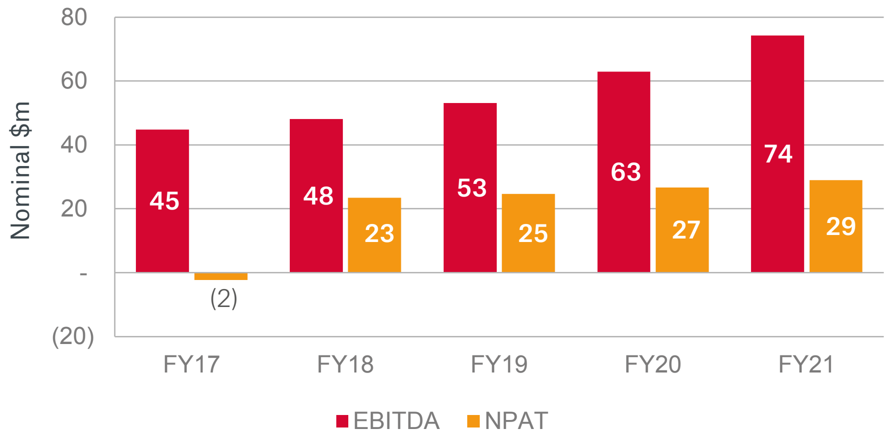


Figure 3: Northpower EBITDA and NPAT (before discounts)



Group financial position

Financial position

The financial position reflects a low level of debt relative to the value of the assets with a net debt to asset ratio* of 14% as at 31 March 2021 (refer figure 4). This is lower than the net debt to asset ratio of 17% at the start of the review period.

The surpluses from contracting business operations have been invested in building and renewing the electricity and fibre networks. The financial strength of the Northpower Group has therefore limited the amount of borrowings required to continue to invest in core business.

Northpower's total assets increased significantly in FY20, due to investment in the network and the capitalisation of leases from the adoption of IFRS 16.

As Northpower is consumer owned, it does not have the ability to raise equity from its owners. Northpower's low level of debt indicates it has borrowing capacity to meet future network investment requirements, withstand operating shocks and potentially invest in new value-add business ventures under the existing ownership structure.

Figure 4: Northpower asset base and debt level

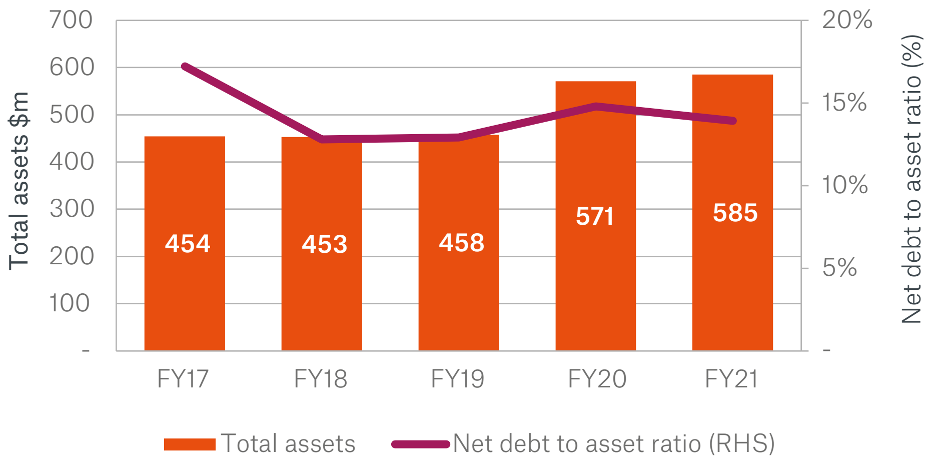
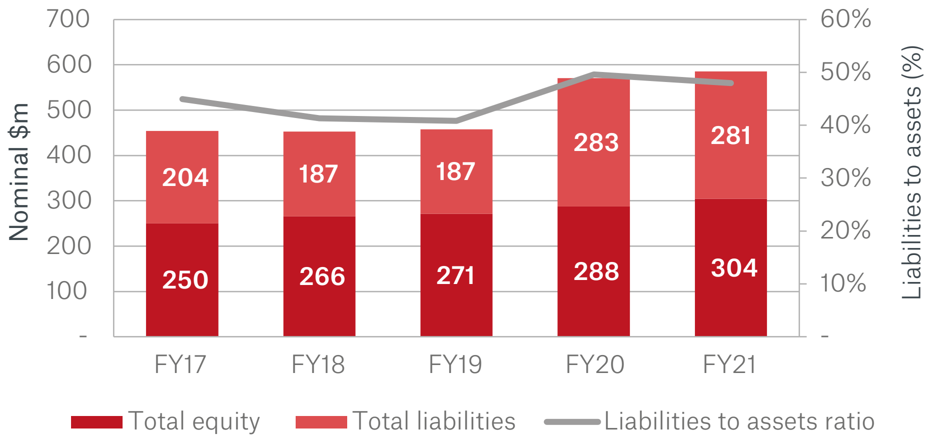


Figure 5: Northpower liabilities and equity



**Net debt to asset ratio: (interest bearing debt –cash) / (total assets -cash)*

Performance against SCI targets

SCI targets

The SCI is agreed annually between the Trust and Company, and outlines the objectives for the Company for the next three years. It includes target metrics for key performance outcomes across the business. A summary of the performance against the SCI targets over the review period is included in table 4 overleaf.

Financial performance

Northpower achieved most of its financial SCI targets from FY18 to FY21 due to the strong financial performance of all business units over this period.

Net profit after tax as a percentage of shareholder funds targets were not met in FY17, mainly because of the closure of West Coast Energy.

Northpower's debt coverage and capital ratios were met (or were within 10% of target) over the review period.

Northpower implemented dividend equivalent (posted discount plus dividend) targets from FY19. The FY20 dividend equivalent was slightly lower than the target due to the impact of COVID-19, which delayed the FY20 final dividend to July 2020. Accordingly, Northpower exceeded its target in FY21.

Safety

The staff safety targets over the review period consist of lost time injuries (LTIs) and total recordable injury frequency rate (TRIFR). Northpower's LTI target was zero, reflecting an objective of no significant workplace injuries for staff. Accordingly, any single accident resulting in lost hours will result in actual performance exceeding the target. This has occurred in the first four years of the review period. In FY21, the LTI target was removed.

TRIFR targets were met in FY17 and FY18. In FY19-FY21 the targets were reduced, however these revised targets were exceeded in all years.

We note Northpower has taken steps to restructure its approach to Health and Safety. The strategy is to focus on critical risk controls associated with potential events that have significant consequences, rather than controls specifically to minimise the TRIFR. In FY21, Northpower recorded its lowest TRIFR for the review period.

Electricity network

Network reliability performance targets include planned and unplanned System Average Interruption Duration Index (SAIDI). Planned SAIDI targets fluctuated from FY19-FY21, reflecting the planned work programme on the network. Unplanned SAIDI targets were constant from FY19-FY20, and increased in FY21.

While the planned SAIDI targets were met in FY17, FY18 and FY19, the remainder of the SAIDI targets have not been met.

A System Average Interruption Frequency Index (SAIFI) target was introduced in FY20. The target was not met in that year but was met in FY21.

The fault rate target was met in three of the five review years.

Residential and commercial customer satisfaction targets have been exceeded in all years. They were not assessed in FY17.

Fibre network

Northpower was within 10% of its target or exceeded all performance targets related to its fibre network in FY19, FY20 and FY21. The SCI did not include fibre targets prior to FY19.

Performance against SCI targets

Table 4: Northpower SCI performance

	FY17	FY18	FY19	FY20	FY21
Financial KPIs					
Net profit after tax as a % of shareholder funds	🔴	🟢	🟢	🟢	🟢
Capital ratio	🟡	🟢	🟡	🟢	🟢
Debt coverage ratio			🟢	🟢	🟢
Dividend equivalent (posted discount plus dividend)			🔴	🟡	🟢
Safety					
Lost time injuries (LTIs)	🔴	🔴	🔴	🔴	
Total Recordable Injury Frequency Rate (TRIFR)	🟢	🟢	🔴	🔴	🔴
Electricity Network					
SAIDI (Planned)	🟢	🟢	🟢	🔴	🔴
SAIDI (Unplanned)	🟡	🔴	🔴	🔴	🔴
Average number of faults per 100km of line	🟢	🔴	🟢	🔴	🟢
Network interruptions (SAIFI)				🔴	🟢
Customer satisfaction (residential)		🟢	🟢	🟢	🟢
Customer satisfaction (commercial)		🟢	🟢	🟢	🟢
Fibre Network					
Network availability (max downtime) Layer 1			🟢	🟢	🟢
Network availability (max downtime) Layer 2			🟢	🟢	🟢
Faults (max downtime) Layer 1			🟢	🟢	🟢
Faults (max downtime) Layer 2			🟢	🟢	🟢
Service level performance: Residential			🟢	🟢	🟢
Service level performance: Commercial			🟢	🟡	🟢

Source: Northpower annual reports, PwC analysis

Key:
- 🟢 Meets/exceeds target
- 🟡 Within 10% of target
- 🔴 Does not meet target

Moving from a dividend normally paid in the following year to a discount paid in the year caused the FY19 dividend equivalent target to not be met

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Network revenue, pricing and returns

Revenue

Total network revenue has grown 5.9% over the review period, in line with connection growth of 5.5%. Distribution revenue grew by 10.7% as transmission charges decreased over the review period. In FY20 net distribution revenue decreased by $11.3m, largely due to the posted discount, which was retained in FY21.

Table 5: Lines charge revenue

$000	FY17	FY18	FY19	FY20	FY21
Lines revenue	87,348	96,183	95,197	92,243	92,468
Transmission charges	(20,339)	(22,816)	(21,734)	(19,983)	(18,323)
Distribution revenue	67,009	73,367	73,463	72,260	74,145
Line charge discounts	-	-	-	(10,100)	(10,200)
Net distribution revenue	**67,009**	**73,367**	**73,463**	**62,160**	**63,945**

Prices

Total unit lines charge revenue has increased by 1.49c/kWh between FY17 and FY21 as shown in figure 6. When price discounts are included average unit prices are 0.85c/kWh higher in FY21 than FY17. We note average line charge revenue increased in FY21 due to the reduced consumption from industrial consumers (who pay asset-based rather than consumption based charges).

Return on investment (ROI)

The regulatory ROI for the network is able to be compared to the benchmark regulatory weighted average cost of capital (WACC) estimates. During the review period, the regulated information disclosure (ID) and default price-quality path (DPP) WACC decreased, as interest rates fell. Northpower's ROI was above the midpoint ID WACC in all years except FY20 and FY21, when line charge discounts were included in prices.

Northpower is not subject to formal price control and has set target returns (after posted discounts) which are below regulated benchmarks and comparative companies.

Figure 6: Weighted average line charge per customer

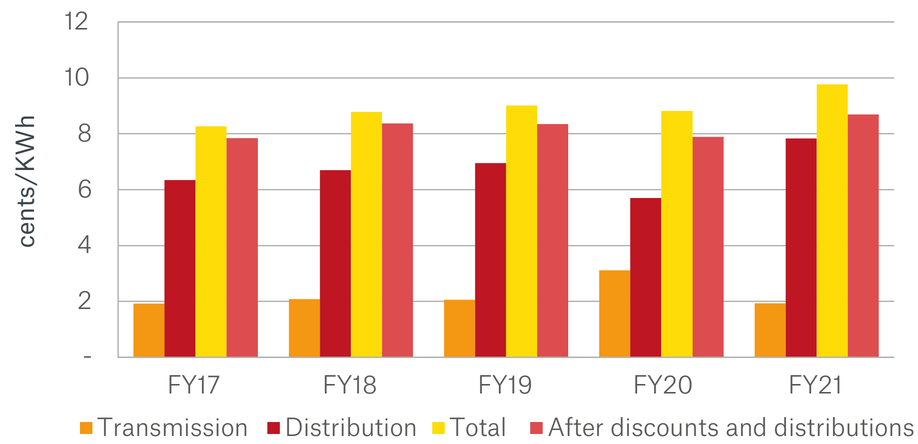
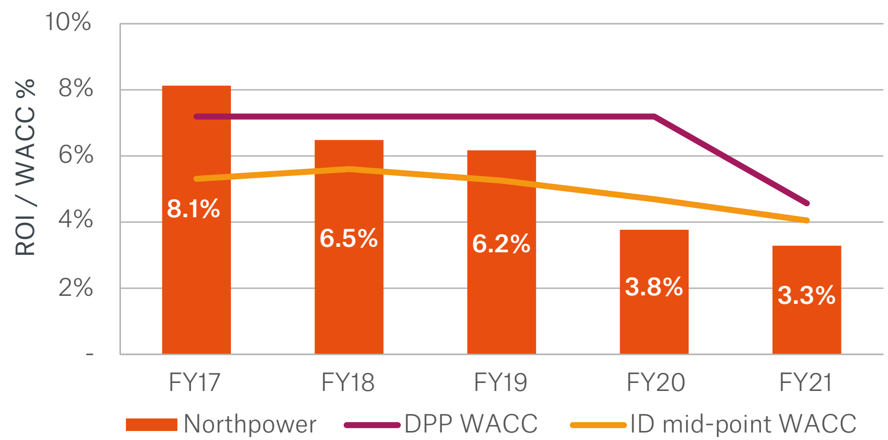


Figure 7: ROI and regulatory WACC benchmarks

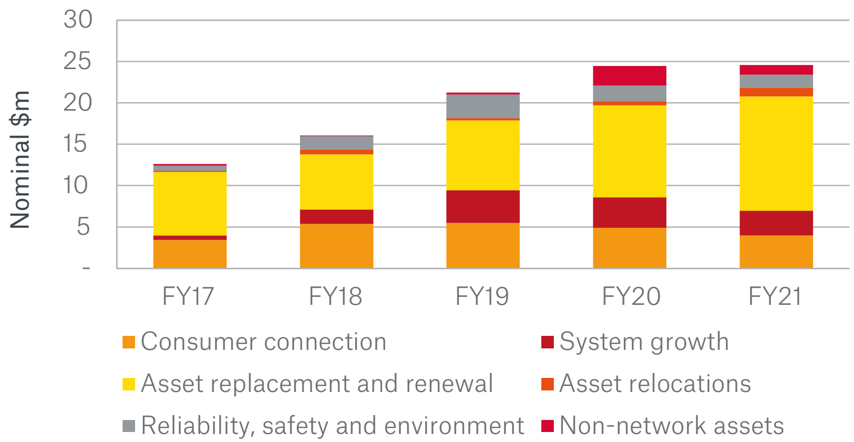


Network capex and asset condition

Capex

Northpower's network capex has been primarily focussed on asset replacement and renewal, new consumer connections and network operating systems as shown in figure 8 below.

Figure 8: Capital expenditure by category



From FY17-FY21 network capex increased on average 17.2% per annum. The first year of Northpower's $200m investment programme was completed in FY19. Northpower's actual network capex was consistent with its forecast capex in all years except FY21 (due to the impacts of Covid-19) as illustrated in figure 9.

Table 6 shows the network asset assessed condition using the regulatory condition assessment framework. The average condition of the network assets has improved over the review period, reflecting the additional focus and investment in the network assets.

Figure 9: Actual vs forecast capex

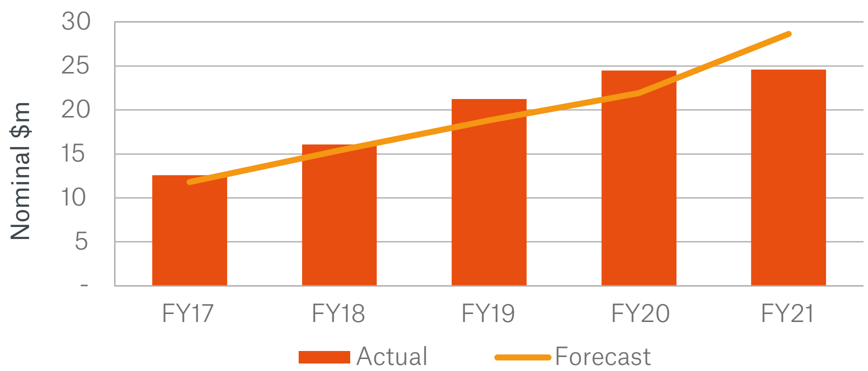


Table 6: Average condition of assets (weighted by quantities)

Average grade*	FY17	FY18	FY19	FY20	FY21
Subtransmission Lines	2.8	2.7	3.1	3.1	3.1
Subtransmission Cables	3.3	3.3	3.6	3.6	3.7
Zone Substations	3.0	3.2	3.5	3.4	3.5
Distribution and LV lines	3.2	3.2	3.6	3.6	3.5
Distribution and LV Cables	3.6	3.5	4.0	4.0	4.0
Poles	3.3	3.2	3.5	3.5	3.5
Distribution Substations and Transformers	3.0	3.0	3.4	3.4	3.4
Distribution Switchgear	3.2	3.4	3.7	3.7	3.7
Other network assets	3.2	3.0	3.4	3.4	3.7

*1 = Replacement recommended
2 = High asset related risk
3 = Increasing asset related risk
4 = Normal in-service deterioration
5 = No drivers for replacement

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Appendix C

Analysis of ownership options

Overview

Trust overview

NEPT holds the shares in Northpower Limited. The Trust Deed ensures that Northpower's consumers as income and capital beneficiaries and electors as potential capital beneficiaries benefit from ownership of the Company under the current trust model, as set out in the Trust Deed.

NEPT's primary objective is to represent the beneficiaries by supporting 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. The Trust's annual letter of expectations of the Company is consistent with this primary objective.

As we did not have access to NEPT's trustees during this review we have not had an opportunity to investigate how the trustees exercise their duties under the Trust Deed.

The Trustees are publicly elected every three years. We understand that the relationship between Trustees and the Company is strong, and the board and management of the Company regularly update the trustees on Company matters, including financial and non-financial performance.

The Trust is active in agreeing the annual statement of intent with the Company each year, which sets out the Company's objectives and targets for the following three years. The Trust also appoints the Directors of the Company and monitors the performance of the Director group.

The Trust has a focus on the needs of the Northland and Kaipara communities and the benefits that Northpower's activities can deliver to those communities.

Evaluation of ownership options

We have evaluated continued consumer trust ownership of Northpower's shares and alternative ownership options.

We consider the advantages and disadvantages to NEPT's beneficiaries of consumer trust ownership of Northpower's shares, relative to the distribution of these shares. This evaluation is required under Clause 4 of the Northpower Trust Deed.

Ownership options available to the Trust range from continued 100% consumer trust ownership through to full distribution of shares. This report examines the ownership options shown in the table below.

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

Strategic direction

Approach

In considering the advantages and disadvantages of consumer trust ownership, relative to alternative options, we have drawn on the objectives set out in the Trust's letter of expectations and the latest SCI to help us evaluate the options.

Strategic direction

Since the previous ownership review, the Northpower Group, has focussed primarily on its three core, complementary businesses:

- electricity network supply services across the Kaipara and Whangārei districts
- fibre optic network delivery of high-speed communication services in the region
- the contracting group operating throughout the North Island providing diversified revenue.

Together these businesses provide Northpower with the scale, capability and financial capacity to enhance and grow the business.

Community value

Northpower is a significant business within the Northland and Kaipara regions. It plays a critical role in providing core utility services in the region, enabling local development, and creating employment and development opportunities for local people.

Northpower is also committed to supporting local services, including the rescue helicopter service and the healthy homes programme.

Northpower's FY22 – FY24 SCI

Principal Objective

The principal objective of the Northpower Group is to provide a safe, secure and reliable supply of electricity, while operating as a successful and sustainable business for the benefit of its shareholders, the electricity consumers of Kaipara and Whangārei

Guiding Principles

Demonstrate safety leadership and performance in all areas that we operate

Drive sustainable financial performance and improvement over time

Ensure that our stakeholders benefit from effective and reliable network infrastructure ownership and operation

Northpower Group Purpose

A focus on generating value for the regions of Kaipara and Whangārei from infrastructure and business ownership

Rangitāmiro. Kaitiakitanga - We weave the fibres together to create strength. We are guardians of the future

External factors

New energy future

In addition to Northpower's current strategic direction, we have considered factors external to Company which may present opportunities and challenges relevant to the assessment of alternative ownership options.

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

New technologies such as solar photovoltaics, battery storage, electric vehicles, smart metering and energy automation management systems are expected to have a significant and enduring impact on the energy market. There are a number of potential grid scale solar generation projects located within Northpower's supply area.

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

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

Northpower is committed to supporting the new energy future.

The analysis on the following pages presents the advantages and disadvantages of consumer trust ownership, and alternative ownership options, assessed against the Company's strategic direction and external opportunities.

Consumer trust ownership

Advantages of consumer trust ownership

<table>
<tr><th>Evaluation Criteria</th><th>Reliable, effective network infrastructure services</th><th>Sustainable financial performance & improvement</th></tr>
<tr><td>100% consumer trust ownership of shares (status quo)</td><td>The Trust’s expectations are currently reflected in Northpower’s objective to deliver reliable and cost effective network services. For example, the Trust’s letter of expectations sets out objectives for:
health and safety
pricing equity and affordability
secure and reliable supply
distributions to consumers
As trustees are appointed to represent consumers, a trust structure allows close alignment between Northpower’s direction and value maximisation for consumers
Allows a long-term perspective and a focus on the interests of current and future consumers and the local community. This includes non-financial outcomes such as network resilience and reliability and local employment
Direct alignment of interests between beneficiaries and electricity consumers means both financial and non-financial considerations such as health and safety and maintenance of network assets can be balanced
A relatively simple and low cost model
Enables exemption from price-quality regulation which provides more flexibility to meet local needs and innovate
Distributions via price discounts are tax effective</td><td>The Trust supports Northpower in pursuing new opportunities. For example, the Trust’s letter of expectation sets out objectives for:
new energy technologies
growth opportunities
innovation
A trust structure allows flexibility for future opportunities and changes in direction
Business structures including joint ventures (JVs) or partnerships can be explored at the company level provided this is supported by the Trust. These options may provide flexibility for pursuing growth and new opportunities and managing risk
Direct alignment of interests between beneficiaries and electricity consumers means investments which respond to changing customer needs and industry opportunities can be more easily justified
The investment in the contracting business has proved successful, resulting in significant additional revenue and diversification for the Company. This has provided access to earnings and capability from outside the Northland region</td></tr>
</table>

Consumer trust ownership

Disadvantages of consumer trust ownership

Evaluation Criteria	Reliable, effective network infrastructure services	Sustainable financial performance & improvement
Consumer trust structure (status quo)	• May prioritise low prices or income distributions to beneficiaries over investment in network operations and assets, limiting operational capability • May be difficult to achieve scale efficiencies in operations • Dependent on ability to attract trustees with necessary skills • Potential instability due to election cycles • Beneficiary involvement in elections is often low • Unable to distribute funds to areas of the community which may be more in need of financial support	• Optimal investment levels may not be obtained if the Trust's willingness to take risk differs from levels that would be targeted commercially • Distributions to beneficiaries may need to be deferred to pursue new opportunities • Unable to raise additional capital from beneficiaries • Mixed dividend/discount distribution model required to manage diverse business activities within Trust ownership • Expectations for distributions to beneficiaries may limit funds for growth

Community trust ownership

Advantages and disadvantages relative to status quo

Relative to status quo	Advantages	Disadvantages
Community trust ownership (alternative)	• Allows funds to be distributed to meet community needs, eg: investing in social infrastructure and engaging in community sponsorship	• Less incentive to manage network performance and the costs of electricity distribution services to consumers because beneficiaries are not necessarily users of the network • Complex process to identify priorities as wide range of potential beneficiaries • Reduced alignment between interests of beneficiaries and electricity consumers means investments which respond to changing customer needs and industry opportunities are more difficult to justify • More complex and costly to operate than consumer trust • May create conflicts between beneficiaries who are consumers and those who are not

Partial sale or distribution

Advantages and disadvantages relative to status quo

Relative to status quo	Advantages	Disadvantages
Partial distribution to beneficiaries of 24.9% or 49.9% of shares	• To a certain degree, the Trust can continue to support Northpower and the interests of beneficiaries by: ◦ balancing both financial and non-financial considerations ◦ encouraging it to pursue new opportunities which respond to changes in consumer needs and sector developments	• Does not provide access to additional capital • Distribution of shares would raise inter-generational equity issues, with value passed to current generations at the expense of future generations • Beneficiaries would lose future distributions, access to future growth in the value of the Company, and may have less influence over future prices and quality of service • A dividend would likely replace the price discounts currently being provided to beneficiaries. This is likely to have tax implications • A more complex structure, with additional costs • Regulatory exemption status would be lost and the Commerce Commission would control maximum lines charge revenue and minimum quality standards
Partial sale to the public or external investors of 24.9% or 49.9% of shares	• Sale of shares to an interested party with relevant experience may provide access to additional expertise to respond to industry opportunities • Additional capital from a sale of shares could be used to pursue new opportunities	• Financial considerations such as return on investment may be prioritised at the expense of non-financial objectives. This may lead to higher electricity prices for consumers • Short-term returns may be prioritised over investment for long-term gain. The amount external investors are willing to pay for a minority stake in Northpower shares may involve a discount relative to the amount they would be willing to pay for a controlling stake • There may not be a material premium available in the market, given the value generated for current and future beneficiaries by the Northpower Group

Full sale or distribution

Advantages and disadvantages relative to status quo

Relative to status quo	Advantages	Disadvantages
100% distribution of shares to beneficiaries	• Assuming that the move away from trust ownership does not result in a reduction in value, current beneficiaries will receive access to the entire value of the assets held for them in trust	• Does not provide access to additional capital • Potential loss of consumer control, if consumers on-sell shares • Distribution of shares raises inter-generational equity issues, with value passed to current beneficiaries at the expense of future beneficiaries • Beneficiaries would lose future distributions, access to future growth in the value of the Company, and may have less influence over future prices and quality of service • A more complex structure, with additional costs • Regulatory exemption status would be lost, and the Commerce Commission would control maximum lines charge revenue and minimum quality standards
Sale of 100% of shares to the public or external investors	• If shares are sold or on-sold to an interested party who gains majority control, Northpower may gain access to external capability to support it in responding to challenges and opportunities in the sector	• Loss of consumer control • Depending on the nature of new shareholders, financial considerations such as return on investment may be prioritised at the expense of non-financial performance. This may lead to higher electricity prices for consumers • The Trust will no longer have influence over Northpower, for example in encouraging it to pursue new opportunities in response to sector developments or for community benefit

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Summary of ownership analysis

Status quo – Trust ownership

Operating under 100% trust ownership, Northpower has successfully refocussed it operations on its core businesses and enhanced the capability of those businesses during the review period. Current and future Trust beneficiaries have been served well by the Company's execution of its strategy which will enable it to continue to take advantage of the wider business opportunities in the electricity sector.

The Company has established sufficient financial capacity to provide funding headroom for future investment, while maintaining its income distributions to beneficiaries through line charge discounts and dividends.

The Company is successfully investing in improved health and safety outcomes, and has invested in core systems and processes within the business to enhance operations and provide capacity for future growth.

The Trust has effectively fulfilled its responsibilities to appoint Directors and review Director performance. The primary responsibility of the Trust is to appoint a quality Board. The current Board has an appropriate mix of commercial and industry experience and has effectively refocused the business to improve the performance of the Company.

The Trust also contributes to setting objectives for the Company through the annual SCI process and has approved a major transaction within the review period.

The Trust appears to have a good relationship with the Board of Directors and the Company, with both formal and informal information sharing and discussion.

There has been strong interest in Trustee elections with a number of candidates putting themselves forward for Trustee positions.

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

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

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

As all Trustees are elected, Northpower is exempt from price-quality regulation under Part 4 of the Commerce Act. This reduces compliance obligations and results in lower costs and complexity for the business compared to non-exempt EDBs.

Appointed trustees may be able to better reflect the needs of beneficiary groups or provide for specific skills or experience on the Trust. However regulatory exemption status would most likely be lost if this was introduced.

Implications of alternative ownership options

Alternative ownership options which involve external shareholders taking a full or partial stake in Northpower's shares may provide access to additional expertise to respond to industry opportunities.

The extent to which such outcomes will apply will depend on the nature of new shareholders (eg another EDB or general diversified investors) and the size of the respective shareholdings.

Summary of ownership analysis

The Northpower group of companies is providing significant access to skills, capabilities, scale and innovation for the core electricity distribution business. This has been achieved while retaining full ownership within the Trust.

A partial or full sale of shares to external shareholders may result in financial considerations such as return on investment being prioritised at the expense of non-financial considerations including health and safety and maintenance of network assets. This may lead to higher electricity prices for Northpower's consumers.

Sale or distribution to beneficiaries

A sale of shares or distribution of shares to beneficiaries would allow beneficiaries to realise the market value of their investment in Northpower.

This is likely to raise inter-generational equity issues since value would be passed to current beneficiaries at the expense of future beneficiaries. Beneficiaries would lose future distributions, access to future growth in the value of the Company, and may have less influence over future prices and quality of service.

If a dividend replaces the discounts currently being provided to consumers this is likely to have tax implications.

Sale or distribution to the public or external investors

Alternative options which involve external shareholders taking a full or partial stake in Northpower shares may create uncertainty as to whether new shareholders are open to pursuing new and innovative opportunities which meet future consumer needs. Short-term returns may be prioritised over investment for long-term gain. This may lead to higher electricity prices for consumers.

The capital available to the Company suggests there are unlikely to be funding constraints for the business in the near future. Constrained access to capital can be a trigger for a change in ownership.

Another trigger is a degradation in the prospects for the core business. However given the current sector outlook and the government policy settings this is highly unlikely in the near term.

There is extensive market evidence that the sale of a minority shareholding will attract a discount to the price that could be achieved by selling 100% of the shares. The Trust is therefore likely to maximise value by selling 100% of the business and distributing cash to beneficiaries, rather than selling part of the business or distributing shares, some of which are likely to be acquired by third parties seeking majority control.

However, there may not be a material premium available in the market, given the value able to be generated for current and future beneficiaries by the Northpower Group.

Portfolio risk

Within the current Northpower Group, the contracting business operates with a different risk profile than the monopoly infrastructure networks. JV arrangements may help to mitigate portfolio risk, however they can also introduce new risks, particularly in the selection of JV partners.

Diversity in the group provides flexibility to realise returns in excess of regulatory benchmarks, cash generating capability and to manage capital structure. Diversity in the group also creates options for divestment if needed, for example if Northpower were to become capital constrained.

Conclusion

Conclusion

Operating under the trust model, Northpower has improved its financial performance over the review period and refocussed on its three core businesses. This has included:

- reset of senior executive team, including appointment of a new CEO
- divestment of under performing non core businesses
- an independent review of the Company's network AMP and commitment to a $200m programme of works from FY19-FY28 to reinforce and renew the network assets. This investment is expected to improve network performance
- improved contracting financial performance and investment in business capability. Surpluses from the contracting business have been invested into renewing electricity assets and building the fibre business
- purchase of the remaining shares in Northpower Fibre from CIP, and near completion of the fibre roll out in Northland
- an independent review of the capital structure of the Company, to confirm the financial resilience of the Group and quantify the capacity for additional future investment
- managing borrowing levels to provide capacity for core businesses to navigate unforeseen market shocks
- investment in core business systems and processes, and bedding in the shared services model with the capability and capacity to support future growth and development
- refining the Company's safety strategy, encouraging safety participation and leadership throughout the organisation,
- distributing $36m of line charge discounts and dividends to the NEPT for the benefit of the customer beneficiaries
- contributing to the wellbeing of the local community.

The Company can be expected to continue to perform if the Trust maintains clear expectations for the Company which balance financial and non-financial considerations, and the interests of current and future beneficiaries.

A distribution of shares to beneficiaries would raise inter-generational equity issues, with value passed to current beneficiaries at the expense of future beneficiaries. Customers would lose future distributions, access to future growth in the value of the Company, and may have less influence over future prices and quality of service as a result.

The Trust's governance role allows it to represent the interests of the beneficiaries through appointment of Directors and contributing to the annual SCI. It is expected that a strong level of board governance and oversight will continue to drive strong performance.

The Trust can encourage investment and initiatives which deliver financial growth, while allowing the Company the flexibility to pursue new opportunities consistent with its strategic objectives.

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