Scanpower Limited Ownership Review Report

Prepared on Behalf of

The Trustees of the Scanpower Customer Trust

December 2016

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Introduction

Scanpower Limited ("Scanpower") was incorporated on 7th May 1993 with all shares in the company held by the Trustees of the Scanpower Customer Trust ("the Trust") under the terms of the Trust Deed dated 30th April 1993.

It is a requirement of the Trust Deed (clause 4.1) that an ownership review be initiated within three years of this establishment date and every five years thereafter. The last review was completed in August 2011 and this report details the findings of an updated ownership review, initiated in August 2016. It is a requirement of this review that this report covers the following:

i) A comparison of Scanpower's performance relative to other electricity lines businesses and benchmarking thereof.

ii) A statement relating to the consideration of ownership views held by members of the public.

iii) An analysis of the performance of the Trust including an assessment of:

- The advantages and disadvantages of Trust ownership.
- The benefits, or otherwise, to consumers of Trust ownership.
- The advantages and disadvantages of individual share ownership.

iv) An analysis of other ownership options.

v) A statement of the conclusions of the Trustees as to the most appropriate form of ownership.

vi) A statement of the conclusions of the Directors of Scanpower Limited.

vii) A share distribution plan if required.

viii) A statement of changes required to the Statement of Corporate Intent if applicable.

ix) A summary of any professional advice received.

This report aims to meet the reporting requirements of the ownership review and to communicate the findings of the review to the Trustees of the Scanpower Customer Trust. A compliance summary is provided below.

Reporting Requirement	Clause	Met?	Page
Benchmark Scanpower Performance	4.1.3	✓	5-24
Consideration of Public Views	4.1.7	✓	25
Trust Performance Assessment	4.1.1	✓	26
Analysis of Ownership Options	4.1.2	✓	30-35
Conclusions of the Trust	4.1.4	✓	36
Conclusions of the Directors	4.1.6	✓	37
Share Distribution Plan	4.1.5	✓	38
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Summary of Professional Advice	4.1.8	✓	40

Section One – Scanpower Limited Performance

Introduction

The Trust Deed requires that the Ownership Review Report contains "*a comparison of the company's performance with the performance of other companies engaged in energy distribution*". This essentially entails undertaking a benchmarking study of Scanpower's performance relative to other participants in the electricity lines sector using a selected range of appropriate performance measures.

As a result of the electricity industry information disclosure regime and associated third party analyses, objective benchmarking data is readily available and can be considered reliable as lines company regulatory disclosures are subject to a formal audit process. Key sources of data used in the following assessment of Scanpower's performance include:

- "Electricity Line Business 2015 Information Disclosure Compendium"

  This is a publication released annually by PWC and is a consolidated summary / analysis of the regulatory information disclosures of all lines companies.

- "Quarterly Survey of Domestic Electricity Prices" / "Lines Company Discount and Energy Trust Distribution Analysis 2015"

  This analysis is released periodically by the Ministry of Business, Innovation and Enterprise. It details the elements of domestic electricity pricing in all major regions and network areas in New Zealand. It breaks down electricity prices into the retail and lines components, in addition to documenting the value of lines company discounts / dividends where they are paid.

The following tables summarises those areas of Scanpower's network business and performance that have been benchmarked in this report.

Network Characteristics

Measure	Calculation / Formula / Basis
Customer Connections	Number of ICPs *(installation control points)*
Connection Density	Number of ICPs per Kilometre of Lines
Energy Density	Average Units (*kWH*) consumed per ICP
% Underground	Percentage of System Installed Underground

Whilst these measures are not performance related of themselves, they provide important contextual information on the nature of Scanpower's network relative to other companies and highlight differences between rural and urban networks, and more / less densely populated areas.

Cost Performance

Measure	Calculation / Formula / Basis
Opex per ICP	Annual Operating Expenditure / Total Number of ICPs
Opex per Line KM	Annual Operating Expenditure / Total KM of Lines
Capex per ICP	Annual Capital Expenditure / Total Number of ICPs
Capex per Line KM	Annual Capital Expenditure / Total KM of Lines

The analysis of costs is intended to cover both annual operating and capital expenditure viewed in two dimensions, on a "per connection" and "per line kilometre" basis.

Operating Expenditure covers costs relating to service interruptions and emergencies, vegetation management, routine and corrective maintenance and line inspection, network and asset management and design, and overhead / business support costs.

Capital Expenditure reflects those costs incurred in the acquisition, replacement or upgrade of physical network assets (i.e. those assets which comprise the "network" including peripheral technical assets such as load control and communications systems).

Profitability Performance

Measure	Calculation / Formula / Basis
ROI	Return on Investment Before Discounts
Adjusted ROI	Return on Investment After Discounts
Profit on Revenue	Annual Profit as a Percentage of Total Revenue

In Scanpower's circumstances it is pertinent to consider profitability (In the form of ROI – as calculated by PWC) before and after discounts, given the significant impact of the annual discount on both the ROI result and the outcome / net price payable for customers. The Profit on Revenue percentage is included to provide an alternative perspective on company profitability relative to other lines companies.

It should be noted that the PWC analysis is based on Scanpower's annual regulatory accounts, as opposed to the statutory financial accounts disclosed in the company annual report. The regulatory accounts are prepared in a format prescribed by the Commerce Commission and intended to reflect the "network only" part of the business. Therefore, the results of this analysis will not reconcile / map necessarily to the "conventional" company accounts.

Network Reliability / Quality Performance

Measure	Calculation / Formula / Basis
SAIDI	Average annual minutes loss of supply per customer
SAIFI	Average number of loss of supply events per customer

SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index) are standard industry key performance indicators of electricity network reliability. In both cases, the lower the value, the better the reliability performance of the network.

For the purposes of this exercise "Class B" and "Class C" categories of SAIDI / SAIFI are used, these being planned and unplanned outages attributable directly to the electricity distribution network.

Network Pricing

Measure	Calculation / Formula / Basis
Lines Price Per kWH	Price paid by a typical residential consumer per unit (all networks)
Line Price Per kWH (local)	Price paid by a typical residential consumer per unit (Lower and Central North Island networks)

The analysis used in the network pricing benchmarking is obtained from the MBIE publication "Quarterly Survey of Domestic Electricity Prices" / "Lines Company Discount and Energy Trust Distribution Analysis 2015". This provides the price paid by "typical" domestic customers per unit of electricity for each network pricing area in the country. It shows the price paid before and after the application of network discounts, where applicable. A typical customer is assumed to consume 8,000 units of electricity per annum.

Two comparisons have been made in this study; one of Scanpower's pricing relative to all network areas, and one against networks in the Lower and Central North Island. Given regional differences in underlying transmission costs (which Scanpower has no control over), the second comparison is perhaps the most relevant.

Summary

The selection of the above performance metrics is intended to provide a balanced assessment of Scanpower's all round performance, covering the key dimensions of:

- Cost performance
- Profitability performance
- Reliability / quality performance
- Pricing / affordability performance

The detailed results of the analysis are provided below.

Network Characteristics – Customer Connections

NAME	CONNECTIONS
Vector	540,539
Powerco	327,386
Orion	190,045
Wellington Electricity	165,690
Unison Networks	110,576
WEL Networks	86,738
Aurora Energy	85,007
Northpower	56,485
Mainpower	42,698
Electra	39,665
Counties Power	38,856
Network Tasman	38,014
The Power Company	35,090
Alpine Energy	31,672
Top Energy	30,771
Eastland Networks	25,392
Horizon Energy Distribution	24,760
Marlborough Lines	24,674
Waipa Networks	24,598
The Lines Company	23,584
EA Networks	18,419
Electricity Invercargill	17,317
Otagonet	14,781
Westpower	13,316
Network Waitaki	12,554
Nelson Electricity	9,214
Centralines	8,439
Scanpower	6,689
Buller Electricity	4,606
Minimum	4,606
Maximum	540,539
Average	70,606
Median	30,771

- With 6,689 customer connections, Scanpower is the second smallest electricity distribution network in New Zealand, accounting for 0.2% of the national total.

- As is evident, the industry is dominated by the top five lines companies who collectively supply 65% of connections in the country.

Network Characteristics – Connection Density

NAME	CONNECTION DENSITY
Wellington Electricity	35.4
Nelson Electricity	31.7
Vector	29.8
Electricity Invercargill	26.2
Electra	17.6
Orion	17.3
WEL Networks	16.4
Aurora Energy	14.6
Counties Power	12.4
Unison Networks	12.2
Powerco	11.8
Waipa Networks	11.6
Network Tasman	10.6
Horizon Energy Distribution	9.9
Northpower	9.6
Mainpower	8.7
Top Energy	7.7
Alpine Energy	7.6
Marlborough Lines	7.3
Buller Electricity	7.2
Network Waitaki	6.5
Eastland Networks	6.4
Scanpower	6.3
EA Networks	6.1
Westpower	5.9
The Lines Company	5.4
Centralines	4.3
The Power Company	4.0
Otagonet	3.2
Minimum	3.2
Maximum	35.4
Average	12.2
Median	9.6

- Scanpower has a connection density of 6.3 customer connections per kilometre of lines. This is the 7th lowest of the 29 network companies, and is half the national average.

- This reflects the largely rural nature of Scanpower's electricity network and the relatively small populations of the main urban centres in the region.

Network Characteristics – Energy Density

NAME	ENERGY INTENSITY
EA Networks	33,830
Otagonet	27,600
Alpine Energy	24,530
Network Waitaki	21,700
Horizon Energy Distribution	20,741
The Power Company	20,029
Westpower	19,992
Northpower	17,574
Orion	16,484
Network Tasman	15,597
Vector	15,472
Marlborough Lines	15,251
Nelson Electricity	15,190
Electricity Invercargill	14,892
Aurora Energy	14,683
Waipa Networks	14,456
Mainpower	14,142
Wellington Electricity	14,118
Unison Networks	14,066
WEL Networks	13,926
The Lines Company	13,896
Counties Power	13,821
Powerco	13,663
Centralines	12,418
Buller Electricity	11,780
Scanpower	11,445
Eastland Networks	11,024
Top Energy	10,423
Electra	10,143
Minimum	10,143
Maximum	33,830
Average	16,306
Median	14,683

- Energy density is measured by the average number of units used per customer connection on the network. At 11,445 Scanpower ranks 4th lowest of the 29 network areas and is significantly below the average. This indicates that electricity usage is low on the Scanpower network compared to other areas. This can be attributed to a range of factors including the use of substitutes such as gas and log burners, and the absence of any particularly large industrial consumers on the network.

Network Characteristics – Percentage of Lines Underground

NAME	% UNDERGROUND
Electricity Invercargill	91.8%
Nelson Electricity	89.1%
Wellington Electricity	62.7%
Vector	53.8%
Orion	49.1%
WEL Networks	39.1%
Unison Networks	37.3%
Aurora Energy	33.1%
Electra	32.4%
Network Tasman	24.4%
Counties Power	23.8%
Horizon Energy Distribution	21.7%
Powerco	21.7%
Top Energy	21.4%
Waipa Networks	18.4%
Mainpower	18.3%
EA Networks	17.5%
Marlborough Lines	15.8%
Alpine Energy	15.7%
Northpower	15.3%
Westpower	10.9%
Eastland Networks	9.9%
Network Waitaki	8.3%
Scanpower	8.0%
Buller Electricity	7.7%
Centralines	7.3%
The Lines Company	7.0%
The Power Company	4.1%
Otagonet	2.2%
Minimum	2.2%
Maximum	91.8%
Average	26.5%
Median	18.4%

- With 8% of the distribution underground, Scanpower ranks 6th lowest of the 29 network companies. This is significantly below the average of 26.5%, noting that the average is skewed quite heavily by several small CBD networks (Electricity Invercargill and Nelson Electricity) who have 91.8% and 89.1% underground. The percentage of underground system has relevance in the context of reliability performance, as underground lines are typically less prone to outages caused by external sources (cars, birds, etc).

Cost Performance – Operating Expenditure per Connection

NAME	TOTAL OPEX PER ICP
Westpower	$718
Buller Electricity	$673
Otagonet	$542
Marlborough Lines	$506
EA Networks	$495
Alpine Energy	$436
The Lines Company	$427
Top Energy	$424
Centralines	$420
The Power Company	$411
Network Waitaki	$362
Horizon Energy Distribution	$322
Unison Networks	$318
Eastland Networks	$309
Counties Power	$293
Mainpower	$285
Aurora Energy	$278
Northpower	$278
Electra	$268
Orion	$267
Network Tasman	$258
Electricity Invercargill	$240
Scanpower	$239
Waipa Networks	$213
Vector	$208
Nelson Electricity	$207
WEL Networks	$206
Powerco	$200
Wellington Electricity	$154
Minimum	$154
Maximum	$718
Average	$343
Median	$293

- At $239 per connection, Scanpower has the 7th lowest operating cost when measured on this basis. This is significantly lower than the national average of $343.

- It is interesting to note that there is no particularly strong correlation between size of network and operating expenditure performance, although the larger companies are all in the lower half of the performance ranking.

Cost Performance – Operating Expenditure per Kilometre of Line

NAME	TOTAL OPEX PER LINE KM
Nelson Electricity	$6,550
Electricity Invercargill	$6,291
Vector	$6,193
Wellington Electricity	$5,456
Buller Electricity	$4,833
Electra	$4,711
Orion	$4,618
Westpower	$4,234
Aurora Energy	$4,060
Unison Networks	$3,869
Marlborough Lines	$3,694
Counties Power	$3,642
WEL Networks	$3,371
Alpine Energy	$3,307
Top Energy	$3,275
Horizon Energy Distribution	$3,199
EA Networks	$3,028
Network Tasman	$2,749
Northpower	$2,668
Mainpower	$2,482
Waipa Networks	$2,476
Network Waitaki	$2,357
Powerco	$2,354
The Lines Company	$2,324
Eastland Networks	$1,986
Centralines	$1,823
Otagonet	$1,731
The Power Company	$1,636
Scanpower	$1,515
Minimum	$1,515
Maximum	$6,550
Average	$3,463
Median	$3,275

- Scanpower has the lowest operating expenditure per kilometre of line at $1,515. This is less than half the national average of $3,463.

- When operating expenditure is measured on this basis, it is notable that some of the larger companies (Vector, Wellington Electricity) rank nearer the top.

Cost Performance – Capital Expenditure per Connection

NAME	TOTAL CAPEX PER ICP
Otagonet	$909
EA Networks	$815
Top Energy	$801
Network Waitaki	$789
Eastland Networks	$743
Counties Power	$726
The Power Company	$716
Mainpower	$655
WEL Networks	$630
Alpine Energy	$552
Marlborough Lines	$497
Electricity Invercargill	$496
The Lines Company	$450
Orion	$447
Buller Electricity	$434
Unison Networks	$417
Network Tasman	$401
Powerco	$366
Aurora Energy	$343
Centralines	$319
Scanpower	$317
Vector	$304
Waipa Networks	$299
Horizon Energy Distribution	$298
Northpower	$235
Electra	$230
Wellington Electricity	$191
Westpower	$161
Nelson Electricity	$137
Minimum	$137
Maximum	$909
Average	$472
Median	$434

- With annual capital expenditure of $317 per customer connection, Scanpower ranks 9th lowest of the 29 companies, and below the national average of $472.

Cost Performance – Capital Expenditure per Line Kilometre

NAME	TOTAL CAPEX PER LINE KM
Electricity Invercargill	$12,994
WEL Networks	$10,310
Vector	$9,063
Counties Power	$9,029
Orion	$7,712
Wellington Electricity	$6,764
Top Energy	$6,191
Mainpower	$5,710
Network Waitaki	$5,136
Unison Networks	$5,073
Aurora Energy	$5,015
EA Networks	$4,982
Eastland Networks	$4,772
Nelson Electricity	$4,350
Powerco	$4,303
Network Tasman	$4,272
Alpine Energy	$4,182
Electra	$4,039
Marlborough Lines	$3,629
Waipa Networks	$3,477
Buller Electricity	$3,117
Horizon Energy Distribution	$2,954
Otagonet	$2,902
The Power Company	$2,852
The Lines Company	$2,452
Northpower	$2,249
Scanpower	$2,007
Centralines	$1,384
Westpower	$946
Minimum	$946
Maximum	$12,994
Average	$4,892
Median	$4,303

- When measured on a “per line kilometre” basis, Scanpower’s annual capital expenditure of $2,007 ranks the third lowest of the 29 lines companies, and is less than half the national average of $4,892.

Profitability – Return on Investment Before Discounts

NAME	RETURN ON INVESTMENT
Orion	8.8%
Wellington Electricity	8.2%
Scanpower	7.5%
Electricity Invercargill	6.9%
Electra	6.7%
Network Tasman	6.7%
Mainpower	6.5%
Otagonet	5.8%
Counties Power	5.8%
EA Networks	5.8%
Powerco	5.6%
Nelson Electricity	5.4%
Unison Networks	5.4%
Northpower	5.2%
Alpine Energy	5.0%
Aurora Energy	4.7%
Vector	4.6%
Waipa Networks	4.6%
WEL Networks	4.5%
Eastland Networks	4.4%
The Lines Company	4.3%
Centralines	4.2%
Horizon Energy Distribution	4.2%
Network Waitaki	3.6%
Buller Electricity	3.5%
The Power Company	3.2%
Top Energy	2.7%
Marlborough Lines	1.4%
Westpower	1.3%
Minimum	1.3%
Maximum	8.8%
Average	5.0%
Median	5.0%

- For the 2015 financial year, Scanpower shows a return on investment of 7.5%. This ranks as 3rd highest of the 29 lines companies, and is 50% higher than the national average of 5.0%.

- It should be noted that this return of investment rate is prior to the deduction of network discounts paid out to customers during the year.

Profitability – Adjusted Return on Investment

NAME	ADJUSTED ROI
Orion	8.3%
Wellington Electricity	7.9%
Electricity Invercargill	6.6%
Otagonet	5.5%
Powerco	5.4%
Nelson Electricity	5.3%
Unison Networks	5.2%
Alpine Energy	4.8%
Aurora Energy	4.6%
Vector	4.5%
Eastland Networks	4.3%
WEL Networks	4.2%
The Lines Company	4.1%
Horizon Energy Distribution	4.0%
EA Networks	3.5%
Buller Electricity	3.4%
Northpower	3.3%
Scanpower	3.1%
Waipa Networks	3.0%
Top Energy	2.6%
Network Waitaki	2.6%
Counties Power	2.5%
Mainpower	2.1%
Centralines	2.0%
Electra	1.6%
Marlborough Lines	1.4%
The Power Company	0.9%
Network Tasman	0.2%
Westpower	-0.5%
Minimum	-0.5%
Maximum	8.3%
Average	3.7%
Median	3.5%

- When the ROI is adjusted for payment of network discounts, Scanpower's performance falls to 3.1% which is below the national average of 3.7% and ranks 18th of the 29 lines companies.

Profitability – Profit as a Percentage of Total Revenue

NAME	PROFIT AS % REVENUE
Orion	33.6%
Otagonet	28.2%
Wellington Electricity	27.2%
Electricity Invercargill	25.4%
Powerco	24.7%
Nelson Electricity	24.3%
WEL Networks	24.2%
EA Networks	23.5%
The Lines Company	22.3%
Unison Networks	22.3%
Vector	22.3%
Aurora Energy	20.1%
Eastland Networks	19.7%
Top Energy	18.3%
Alpine Energy	17.9%
Horizon Energy Distribution	16.8%
Scanpower	16.2%
Buller Electricity	15.8%
Northpower	15.7%
Counties Power	15.5%
Waipa Networks	15.0%
Network Waitaki	14.9%
Marlborough Lines	13.6%
Centralines	12.6%
Mainpower	12.6%
The Power Company	9.4%
Electra	9.1%
Network Tasman	3.7%
Westpower	1.4%
Minimum	1.4%
Maximum	33.6%
Average	18.1%
Median	17.9%

- Scanpower's annual profitability is represented as 16.2% of total revenue for the year, placing it narrowly below the national average of 18.1%.

Network Reliability – SAIDI

NAME	SAIDI	% UNDERGROUND	CONNECTION DENSITY
Nelson Electricity	19.9	89.1%	31.7
Wellington Electricity	40.1	62.7%	35.4
Electricity Invercargill	41.3	91.8%	26.2
Network Waitaki	51.1	8.3%	6.5
Scanpower	68.2	8.0%	6.3
WEL Networks	106.8	39.1%	16.4
Counties Power	120.1	23.8%	12.4
Unison Networks	121.3	37.3%	12.2
Orion	126.3	49.1%	17.3
Marlborough Lines	129.9	15.8%	7.3
Aurora Energy	130.0	33.1%	14.6
Centralines	141.4	7.3%	4.3
Electra	158.8	32.4%	17.6
Alpine Energy	161.0	15.7%	7.6
Mainpower	191.7	18.3%	8.7
EA Networks	198.2	17.5%	6.1
Network Tasman	210.3	24.4%	10.6
The Power Company	295.5	4.1%	4.0
The Lines Company	299.9	7.0%	5.4
Powerco	322.1	21.7%	11.8
Otagonet	357.7	2.2%	3.2
Eastland Networks	368.7	9.9%	6.4
Northpower	379.6	15.3%	9.6
Horizon Energy Distribution	390.7	21.7%	9.9
Waipa Networks	495.2	18.4%	11.6
Vector	496.2	53.8%	29.8
Westpower	600.4	10.9%	5.9
Top Energy	1,887.8	21.4%	7.7
Buller Electricity	2,746.0	7.7%	7.2
Minimum	19.9	2.2%	3.2
Maximum	2,746.0	91.8%	35.4
Average	367.5	26.5%	12.2
Median	191.7	18.4%	9.6

- In 2015, Scanpower had the 5th best SAIDI result in the electricity lines industry, at 68.2 minutes loss of supply per customer. This was significantly better than the national average of 367.5 minutes.

- "% Underground" and "Connection Density" have been added to the table above, to highlight the impact on the top three best performers.

Network Reliability – SAIFI

NAME	SAIFI	% UNDERGROUND	CONNECTION DENSITY
Wellington Electricity	0.72	62.7%	35.4
Electricity Invercargill	0.79	91.8%	26.2
Scanpower	0.86	8.0%	6.3
Network Waitaki	1.10	8.3%	6.5
Orion	1.18	49.1%	17.3
Aurora Energy	1.37	33.1%	14.6
Marlborough Lines	1.41	15.8%	7.3
Alpine Energy	1.44	15.7%	7.6
Mainpower	1.48	18.3%	8.7
WEL Networks	1.55	39.1%	16.4
Nelson Electricity	1.57	89.1%	31.7
Network Tasman	1.84	24.4%	10.6
Vector	1.87	53.8%	29.8
Unison Networks	2.02	37.3%	12.2
EA Networks	2.05	17.5%	6.1
Centralines	2.40	7.3%	4.3
Powerco	2.55	21.7%	11.8
Counties Power	2.58	23.8%	12.4
Electra	2.63	32.4%	17.6
Buller Electricity	3.11	7.7%	7.2
Horizon Energy Distribution	3.31	21.7%	9.9
Westpower	3.34	10.9%	5.9
Otagonet	3.39	2.2%	3.2
Waipa Networks	3.40	18.4%	11.6
Northpower	3.59	15.3%	9.6
The Power Company	3.76	4.1%	4.0
The Lines Company	4.50	7.0%	5.4
Eastland Networks	5.02	9.9%	6.4
Top Energy	7.38	21.4%	7.7
Minimum	0.72	2.2%	3.2
Maximum	7.38	91.8%	35.4
Average	2.49	26.5%	12.2
Median	2.05	18.4%	9.6

- With a SAIFI result of 0.86 interruptions per customer per year, Scanpower ranks 3rd best of the 29 lines companies.

- Again, those companies performing better than Scanpower have both a high connection density and high percentage of assets underground.

Network Pricing – All Network Pricing Areas (Line Charge Component)

Rank	Town	Lines Company	Price per KWH	Discount per KWH	Net Price per KWH
1	Balclutha	*OtagoNet Joint Venture*	20.02	0.00	20.02
2	Kerikeri	*Top Energy*	20.08	2.50	17.58
3	Waipukurau	*Centralines*	18.61	1.70	16.91
4	Westport	*Buller Electricity*	16.78	0.00	16.78
5	Gisborne	*Eastland (High Density)*	15.45	0.00	15.45
6	Cromwell	*Aurora Energy (Clyde/Cromwell)*	14.75	0.00	14.75
7	Taumaranui	*The Lines Company (Ongarue GXP)*	14.56	0.00	14.56
8	Hawera	*Powerco (Western B - Sth Taranaki)*	14.00	0.00	14.00
9	Masterton	*Powerco (Western B - Wairarapa)*	14.00	0.00	14.00
10	Rotorua	*Unison (Rotorua)*	13.67	0.00	13.67
11	Taupo	*Unison (Taupo)*	13.67	0.00	13.67
12	Thames	*Powerco (Thames Valley)*	13.04	0.00	13.04
13	Whakatane	*Horizon Energy (Urban)*	12.59	0.00	12.59
14	Napier	*Unison (Hawke's Bay)*	14.59	2.10	12.49
15	Greymouth	*Westpower*	12.88	1.30	11.58
16	North Shore	*Vector (Northern)*	11.57	0.00	11.57
17	Wellington	*Wellington Electricity Lines*	11.47	0.00	11.47
18	New Plymouth	*Powerco (Western A - Nth Taranaki)*	11.46	0.00	11.46
19	Whanganui	*Powerco (Western A - Whanganui)*	11.46	0.00	11.46
20	Palmerston North	*Powerco (Western A - Manawatu)*	11.46	0.00	11.46
21	Christchurch	*Orion NZ*	11.11	0.00	11.11
22	Otorohanga	*The Lines Company (Hangatiki GXP)*	13.69	2.60	11.09
23	Winton	*The Power Company (Urban)*	12.79	1.80	10.99
24	Hamilton	*WEL Networks*	13.68	2.70	10.98
25	Queenstown	*Aurora Energy (Queenstown)*	10.95	0.00	10.95
26	Dannevirke	*Scanpower*	14.23	3.40	10.83
27	Blenheim	*Marlborough Lines (Non-remote)*	14.11	3.40	10.71
28	Invercargill	*Electricity Invercargill*	10.22	0.00	10.22
29	Nelson	*Nelson Electricity*	10.03	0.00	10.03
30	Timaru	*Alpine Energy (Low Cost Area)*	10.49	0.60	9.89
31	Paraparaumu	*Electra*	11.41	1.80	9.61
32	Pukekohe	*Counties Power*	12.46	2.90	9.56
33	Kaiapoi	*Mainpower (Kaiapoi)*	9.52	0.00	9.52
34	Rangiora	*Mainpower (North Canterbury)*	11.71	2.20	9.51
35	Whangarei	*Northpower*	11.46	2.20	9.26
36	Dunedin	*Aurora Energy (Dunedin)*	8.47	0.00	8.47
37	Oamaru	*Network Waitaki*	9.61	1.60	8.01
38	Auckland Central	*Vector (Auckland)*	11.57	4.20	7.37
39	Ashburton	*EA Networks*	7.88	0.90	6.98
40	Cambridge	*Waipa Networks*	8.35	1.50	6.85
41	Tauranga	*Powerco (Tauranga)*	11.97	6.40	5.57
42	Richmond	*Network Tasman*	9.10	4.10	5.00

Average	11.45
Median	11.10

- A typical domestic customer on the Scanpower network pays 10.83 cents per unit of electricity consumed. This is below the national average and the national median.

- Compared to the industry in general, Scanpower ranks 26th lowest of the 42 pricing regions in New Zealand.

Network Pricing – Lower / Central North Island Network Pricing Areas (Line Charge Component)

Rank	Town	Lines Company	Price per KWH	Discount per KWH	Net Price per KWH
1	Waipukurau	*Centralines*	18.61	1.70	16.91
2	Gisborne	*Eastland (High Density)*	15.45	0.00	15.45
3	Taumaranui	*The Lines Company (Ongarue GXP)*	14.56	0.00	14.56
4	Hawera	*Powerco (Western B - Sth Taranaki)*	14.00	0.00	14.00
5	Masterton	*Powerco (Western B - Wairarapa)*	14.00	0.00	14.00
6	Rotorua	*Unison (Rotorua)*	13.67	0.00	13.67
7	Taupo	*Unison (Taupo)*	13.67	0.00	13.67
8	Thames	*Powerco (Thames Valley)*	13.04	0.00	13.04
9	Whakatane	*Horizon Energy (Urban)*	12.59	0.00	12.59
10	Napier	*Unison (Hawke's Bay)*	14.59	2.10	12.49
11	Wellington City	*Wellington Electricity Lines*	11.47	0.00	11.47
12	New Plymouth	*Powerco (Western A - Nth Taranaki)*	11.46	0.00	11.46
13	Whanganui	*Powerco (Western A - Whanganui)*	11.46	0.00	11.46
14	Palmerston North	*Powerco (Western A - Manawatu)*	11.46	0.00	11.46
15	Otorohanga	*The Lines Company (Hangatiki GXP)*	13.69	2.60	11.09
16	Hamilton	*WEL Networks*	13.68	2.70	10.98
17	Dannevirke	*Scanpower*	14.23	3.40	10.83
18	Paraparaumu	*Electra*	11.41	1.80	9.61
19	Pukekohe	*Counties Power*	12.46	2.90	9.56
20	Cambridge	*Waipa Networks*	8.35	1.50	6.85
21	Tauranga	*Powerco (Tauranga)*	11.97	6.40	5.57

Average	11.94
Median	11.47

- Noting the potential impact of underlying transmission charges on network pricing, it is valid to compare Scanpower's pricing to lines companies operating in a similar region (in the above data, the Lower and Central North Island).

- When analysed on this basis, Scanpower's charges rank 17th lowest of the 21 pricing regions. Scanpower is also the lowest of its immediate neighbours to the north, south and west (who are highlighted in green).

Summarising the Data

- The above data can be synthesised as follows for the purposes of performance assessment:

Physical Summary

- Scanpower is the one of the smallest electricity networks in New Zealand in terms of customer connections, second only to Buller Electricity in Westport.

- Scanpower is in the lowest quartile of connection density, reflecting the rural and geographically widespread nature of the network area.

- Scanpower is in the lowest quartile of energy density, indicating that average electricity consumption levels per connection are well below average.

- Scanpower has a predominantly overhead network system, and is the lowest quartile in terms of underground systems.

Cost Performance

- In terms of operating expenditure performance, Scanpower ranks in the lowest quartile when measured on the basis of opex per customer connection, and has the lowest operating expenditure in the country when measured by opex per kilometre of line.

- In terms of capital expenditure, Scanpower ranks in the third quartile when expressed on the basis of capex per connection, and the fourth lowest quartile for capex per kilometre of line.

Return on Investment / Profitability Performance

- Scanpower ranks in the top quartile of return of investments before discounts, with an ROI of 7.5%.

- When discounts are taken into account, Scanpower's ROI falls to 3.1% placing it in the third performance quartile, just below the national average of 3.7%.

Network Reliability Performance

- When network reliability is measured by SAIDI, Scanpower ranks in the top quartile of industry performance (5th best).

- When network reliability is measured by SAIFI, Scanpower ranks in the top quartile of industry performance (3rd best).

Pricing Performance

- When compared to the entire country, Scanpower's line charges for typical domestic consumers are below average, and rank in the third quartile (26th out of 42).

- When compared to lines companies in the same geographic region, Scanpower's line charges for typical domestic consumers are the 17th lowest (out of 21), and lower than all its immediate neighbours.

Performance Interpretation

- Based on the above, Scanpower's performance may be characterised by the following:

  - Having a low-cost structure in terms of operating expenditure and capital expenditure.

  - Generating a high rate of return (prior to payment of discounts).

  - Having a high performing standard of network reliability.

  - Having lines charges that are below the national average, and well below other lines companies in the same region.

- It is suggested that considering this, Scanpower can be assessed as performing strongly relative to other industry participants, despite the challenges imposed by the physical / geographical nature of the network.

Section Two – Consideration of Views Expressed by the Public

Clause 4.1.7 of the Trust Deed requires the Ownership Review Report to include a statement as to whether the Trustees have had regard to any views expressed by the public with respect to ownership.

In relation to this, the Scanpower Customer Trust conducted a survey of households connected to the network to ascertain their views on a range of possible ownership options. This survey was administered by Electionz.Com Limited, a Christchurch based research company specialising in local body elections and other such things. Survey forms were mailed out on 16th November 2016 with a closing date for responses of 9th December 2016. A newsletter / information pamphlet was enclosed with the survey form, advising customers of the range of potential ownership options.

4,681 survey forms were sent out to households connected to the Scanpower electricity network, with the address list being sourced from the National Registry, an independently maintained database of all electricity connections in New Zealand. Those identified as being connected to Scanpower's network and having a connection status of "Domestic" were selected. These records were cross referenced to information provided by electricity retailers to obtain the names of customers at each address.

The results of the survey are shown in the table below.

Preferred Ownership Structure	Votes	Percentage
Continuation of Trust	1,351	96.4%
Customer Held Shares	22	1.6%
Outright Sales	6	0.4%
Mixed Shareholding – Trust Majority	11	0.8%
Mixed Shareholding – Customer Majority	12	0.9%
TOTAL RETURNS	**1,402**	**100%**

With 1,402 valid forms received, the response rate was 30% and this is higher than the 2011 and 2006 ownership review surveys.

The results indicate a strong customer preference for continuation of the existing trust ownership structure, with 96.4% of respondents favouring this option.

Section Three – Performance of the Trust

The shares in Scanpower Limited are held in trust by the Trustees of the Scanpower Customer Trust on behalf of customers connected to the company's electricity network (the beneficiaries of the trust). The Trustees have a fiduciary relationship with the trust's beneficiaries, the connected customers, and have the following general responsibilities:

- To act in the best interests of the beneficiaries of the trust.
- To act honestly and with a level of skill and care that would reasonably be expected of a business person in managing the interests of others.
- To act personally rather than delegating to others (except where the trust deed permits delegation).
- To be thoroughly familiar with the terms of the trust deed.

Under the terms of the Scanpower Customer Trust deed, the Trustees have several key duties and powers that they can use in meeting these responsibilities. These include:

- The power to appoint and remove Directors.
- An ability to set performance targets for the company, and its strategic direction, through the annual Statement of Corporate Intent.
- An obligation to undertake a five-yearly ownership review.
- An obligation to organise trustee elections every three years.

This brief overview of the role of the Trust provides some context in which to consider how well it has performed. In assessing the performance of the Trust, the following areas have been considered as part of this review:

- Value of shareholders' equity in Scanpower Limited.
- Statement of Corporate Intent and company performance.
- Industry participation and continuous improvement.

Shareholders' Equity

The audited financial statements of Scanpower Limited indicate, on an annual basis, the value of shareholders' equity in the company. This shareholders' equity is effectively the primary asset for which the Trust is responsible. The following table shows the movement in shareholders' equity since the last ownership review[1].

Year	2011	2012	2013	2014	2015	2016
Shareholders' Equity ($'000)	26,892	27,543	27,803	28,159	29,446	36,961

As is evident from the figure above, over the five-year period from 31 March 2011 to 31 March 2016 the value of shareholders' equity has moved from $26.9m to $37.0m. This is an increase of $10.1m over that time, representing growth in value of 37.5%.

Statement of Corporate Intent and Company Performance

Each year Scanpower Limited submits a Statement of Corporate Intent (SCI) to the Trustees for feedback and approval. The SCI covers a range of things, including:

- The strategic objectives of the company.
- A description of the industries in which the company intends to operate.
- A description of the company's approach to network pricing.
- Forecast financial statements over a three-year period.
- Performance targets for a range of key measures.

Under the Trust Deed, the Trustees are empowered to direct amendments to the SCI prior to granting its approval and adoption. This process is now more significant since Scanpower Limited was granted exemption from the Commerce Commission's price and quality control regime in 2009.

The performance targets set by the Trust for Scanpower Limited through the SCI process are structured similarly to those measures examined in the benchmarking review undertaken in Section One of this report. To some extent therefore, the performance of the Trust is mirrored in the performance of the company. Having concluded in the benchmarking review that Scanpower Limited is performing well relative to peer group companies and the industry in general, it would be reasonable to further conclude that this Trust too is performing well, given its role in setting and driving performance standards within the company.

[1] Source: Scanpower Limited Annual Reports 2011 - 2016

In terms of outcomes for the customer beneficiaries of the Trust, they are receiving a high quality of service at a relatively low price. Fundamentally this should be regarded as a good outcome for customers and therefore is indicative of good performance from the Trust.

The Statement of Corporate Intent objectives for the financial year ending 31 March 2016 are summarised in the table below, with the actual performance achieved by Scanpower Limited for each.

Performance Measure	Target	Actual	Variance
Financial Measures			
Earnings Before Discounts and Tax	$3,032,000	$3,773,000	+$741,000
Earnings Before Interest Discounts and Tax	$3,512,000	$4,236,000	+$724,000
Earnings Before Interest and Tax	$2,212,000	$2,671,000	+$459,000
Net Profit After Interest Discounts and Tax	$1,732,000	$2,208,000	+$476,000
Shareholders' Equity	$30,759,000	$36,961,000	+$6,202,000
Total Assets	$47,111,000	$56,554,000	+$9,443,000
Return on Assets (EBIDT / Shareholders' Equity)	9.86%	11.46%	+1.60%
Equity Ratio	65.29%	65.36%	+0.07%
Customer Measures			
Scanpower Line Charge per Unit of Electricity	7.90 cents	8.14 cents	+0.24 cents
Total Discounts Paid to Customers	$1,300,000	$1,565,000	+$265,000
Network Reliability Measures			
Outage Minutes Per Customer (SAIDI Class B/C)	68	55	-13
Interruptions Per Customer (SAIFI Class B/C)	0.90	0.70	-0.20
Employee Safety Measures			
Disabling Injury Frequency (per 200,000 hours)	0	1.35	+1.35

In the annual Trust Chairman's Report for the financial year ending 31 March 2016, Keith Cammock (Chairman) concluded *"The Trustees of the Scanpower Customer Trust are satisfied that the operating results for the year closely align with the goals set out in the Statement of Corporate Intent".*

Industry Participation and Continuous Improvement

In assessing the performance of the Trust, it is pertinent to note that it is a participating member of Electricity Trusts of New Zealand (ETNZ). This is a body established to bring together Trustees from electricity line companies all over the country, with the objectives of promoting continuous improvement in the operation of the member trusts, and representing the trusts in terms of regulatory and government relations. ETNZ also holds at least one major member conference per year, which includes a range of industry guest speakers and information on topical issues.

The Trustees of the Scanpower Customer Trust have maintained a policy of ensuring that a representation from the Trust attends these conferences, and provides a report back to those Trustees unable to attend.

By doing so, the Trustees ensure that they are familiar with issues facing electricity trusts and can adapt to the regulatory environment appropriately.

In the context of this review, the purpose of this commentary is to highlight the professional and diligent approach taken by the Trustees in managing the affairs of the Trust and its beneficiaries.

Performance of the Trust – Additional Comments

Based on the discussion above, it is appropriate to conclude that the Trustees of the Scanpower Customer Trust are performing effectively and delivering positive outcomes for the customer beneficiaries of the Trust.

Section Four – Review of Ownership Options

In reviewing the advantages and disadvantages of a range of possible ownership options for Scanpower Limited, the following have been considered:

- Trust ownership (continuation of the existing structure).
- Distribution of shares to customer beneficiaries and dissolution of the Trust.
- Outright sale of shares in Scanpower Limited (to any party).
- Mixed shareholding structure between the Trust and customers.

A discussion of each of these options is provided below.

Trust Ownership Option

The existing trust ownership structure has been in place since the incorporation of Scanpower Limited in 1993, having been approved in four previous ownership reviews (1996, 2001, 2006, and 2011). Nationally, trust ownership is the preferred choice of structure with 17 of the 29 electricity lines entities operating under such a system. It is perhaps worthwhile to suggest why this is the case (i.e. why a trust ownership structure has been perceived as effective for lines companies) and highlight the following points:

- Electricity is an essential service demanded by the entire population.
- Electricity distribution businesses enjoy a natural monopoly.
- Electricity networks have geographically defined boundaries and populations.
- Availability of electricity services is a prerequisite of economic growth.
- Availability of electricity services is essential to maintain a modern standard of living.

Considering these factors, it is perhaps unsurprising that consumers in a given network area would opt for trust ownership of the electricity network to which they connect. Given that they reside and work within the network area, the consumers would have a strong motivation to ensure that the electricity network was operated in a manner congruent with their interests in so much as:

- The network was operated safely and reliably.
- The network was maintained on a sustainable basis over the long term.

- The network operator was prevented from abusing its monopoly position and generating excessive profits through artificially high pricing.

- The network operator acted in a responsible manner in regard to its social, environmental and economic obligations to its local communities.

- The network was engineered and funded in such a way that growth could be supported over time.

- Any surplus profits / cashflows were returned to the consumers within the local network area.

Given that the shareholder beneficiaries are all customers, and vice versa, the key issues here are control and influence and this is perhaps one of the main advantages of the trust ownership structure; those who pay to use the company's electricity distribution services can influence matters such as pricing and quality of service (i.e. reliability). Furthermore, those customer shareholders also partake in the distribution of surplus profits / cash by way of the annual network discount mechanism.

A key advantage therefore of trust ownership is that the customers, via their elected trustees can set whatever objectives are deemed appropriate for Scanpower Limited. The Trustees are then charged with ensuring that these objectives are followed through on and achieved.

Perusal of the Scanpower Statement of Corporate Intent highlights that the objectives set are customer and community focused, rather than being specifically profit or return driven. In simple terms, the thrust of the SCI is to deliver a high-quality network service at a relatively low cost, whilst acting in a socially appropriate manner.

The annual network discount is another advantage of the current trust ownership structure, which enables surplus funds to be distributed back to customers, ensuring that wealth is retained within the local community and economy.

In terms of potential disadvantages of the current trust ownership structure, the following are generally identified as being potential issues with trust ownership:

- The level of costs associated with administering the Trust.

- Potential problems with raising new capital.

- Propensity to indulge in special interest projects.

- Lack of access to economies of scale.

In response the first point, the Scanpower Customer Trust sustains itself on an annual dividend of $125,000 (per the most recent full financial year ended 31 March 2016).

This equates to 3.3% of Earnings Before Discounts and Tax for the same period, or alternatively $18.38 per year per customer connection (based on 6,800 connections), or 0.34% of the value of shareholders' equity in Scanpower Limited. On this basis, the cost of running the Trust does not seem excessive relative to the returns, number of beneficiaries or the value of assets held. Furthermore, the cost of administering a shareholder register (as might be required under alternative ownership options) would likely be higher than this.

In relation to capital raising, this has not been an issue for the Scanpower Customer Trust or Scanpower Limited. The company has a relatively low level of long term debt, and has in all instances to date been able to satisfactorily secure finance where it has been required.

On the third potential disadvantage, it is often a criticism of trusts that the trustees, for whatever reason, spend a disproportionately high level of funds derived from the business on activities of benefit to narrow or special interest groups, and not to the benefit of the broader base of beneficiaries. This criticism has some merit in relation to certain trust structures within the electricity distribution industry where it is not uncommon for large donations to be made to particular projects of interest to the trust, or to placate special interest groups within the community.

Whether or not this type of issue eventuates depends on the leadership of the trust and on the procedures that the trust chooses to follow. In the case of the Scanpower Customer trust, the Statement of Corporate Intent has been structured to ensure that financial benefits are distributed to customers on an equitable basis, and this is done via the company rather than the trust itself. Beyond this principle, the trust does not participate in allocating any funds to groups or projects in the community on an arbitrary basis.

Finally, on the matter of economies of scale, it may be argued that Scanpower's relatively small size may prevent it from gaining access to economies that might otherwise be available through merging with one or more other lines companies. Whether this is the case is debateable, given step cost changes and potential diseconomies of scale. Studies undertaken by ETNZ found no clear correlation between cost efficiency and size of lines company.

In any case, the benchmarking analysis undertaken above has identified that irrespective of size, Scanpower Limited's operating costs are at an economical level compared to the industry at large.

Whilst it is not able to "grow" its network business, Scanpower Limited has achieved some scale through its programme of diversification into other businesses, to the extent that 58% of revenues are derived from activities outside of electricity distribution (in the most recent full financial year). This has the effect of spreading corporate and overhead costs across a broader base, thereby allowing the company to achieve operating efficiencies that stack up well in comparison to the industry as a whole.

In conclusion, the over arching source of advantage (from a customer perspective) for the current trust ownership structure is that the shareholders are the customers, and therefore their interests are one and the same. The ability to influence and control the direction and performance of Scanpower Limited via the trust structure enables customers to ensure that they receive the best possible service at the best possible price. As a final comment, it is perhaps pertinent to note that the fact that 96.4% surveyed expressed a preference for trust ownership is prima facie evidence that it is the best structure for consumers / shareholders.

Potential Advantages	Potential Disadvantages
• Well established structure. • Customer / shareholders have a high degree of influence and control. • Ability to specify objectives relating to price and quality. • Customers', shareholders' and local interests are aligned. • Surplus funds returned to customers annually.	• Costs associated with administration of the trust. • Limited ability to raise capital. • Possibility of focus on special interest projects. • Lack of access to economies of scale.

Distribution of Shares to Customers

At present customers own Scanpower Limited indirectly via the Scanpower Customer Trust which nominally owns all shares in the company. The beneficiaries of the trust are the connected electricity customers of the day.

An alternative to this structure would be for customers to own the shares in Scanpower Limited directly. This would require the shares to be allocated to customers on a specific date which would be the "vesting" date. From that date, those customers would own those shares and be free to manage those assets as they wished, including the possibility of selling those shares (assuming a market existed).

An initial advantage for those customers connected at the vesting date would be the windfall receipt of an asset in the form of the shares. The indicative value of this windfall (based on shareholders' equity at 31 March 2016 divided by the number of customer connections) would be $5,435. This of course does not indicate what a third party might be prepared to pay for the shares were they sold. If the shares were not sold, the customer holding the shares would be entitled to receive dividends from the company on an annual basis.

It is suggested that in the absence of the Trust, there would be a shift in the company's emphasis towards a more typical "investor owned" model. With this would come an increased commercial focus, with the potential advantages of increased focus on profitability, rates of return and operating efficiencies.

This may in turn drive merger / acquisition initiatives and increase the company's access to capital / investment funds. These factors have the potential to increase the profitability of the company, the returns to investors and the value of the shares in the company. This would of course be advantageous to those customers who fortuitously benefitted from receiving shares at the vesting date.

It is perhaps ironic that many of the potential disadvantages associated with this ownership option could be derived from the "increased commercial focus" described above. Following this model through its likely stages of development, it seems reasonable to suggest that the following would happen:

- Network charges would increase under pressure to improve returns. As the pricing benchmarking data above indicates, there is substantial head room for Scanpower to increase its prices and remain with an acceptable range.

- The annual network discount would cease, with funds being distributed via dividends. Over time, as shares were sold and fewer customers remained shareholders, the positive financial benefit to the community would be steadily diluted.

- Scanpower's reliability performance could deteriorate as, for the purposes of cost savings, expenditure on fault response teams, preventative maintenance and vegetation management was reduced.

Contemplation of these advantages and disadvantages raises a key issue – to whom do these advantages and disadvantages accrue? Relative to the current model, the advantages benefit the shareholders, whilst the disadvantages impact on customers. When the shareholders and the customers are one and the same (as per the current trust model) the tension between the two interests is held in balance. However, individual ownership of shares would over time would likely see a divergence between shareholder and customer interests, and a transfer of power (and benefits) in favour of shareholders at the cost of customers.

This raises another key issue; in considering the relative benefits of different ownership options, whose interests should this review consider? It is suggested that it is the interests of the current customer shareholders, not those of theoretical, future shareholders who may, or may not, be customers.

Outright Sale of Scanpower Limited

Since the introduction of the Energy Companies Act 1992, several former regional lines companies opted to sell their businesses to third parties. For example, the Central and Wairarapa networks sold to Powerco (now owned largely by the Queensland Retirement Corporation), as did those in and around Wellington (Wellington Electricity is now owned by a Chinese infrastructure company).

As with the previously discussed option, this resulted in a sudden and significant windfall gain to the customers of the day, but this time in the form of cash rather than shares. This "one off" gain is the primary advantage of the outright sale option. It is not possible to accurately assess what the total proceeds of such a sale might be, however based on shareholders' funds and the number of customers a fair estimate might be something in the order of $5,000 per customer.

In terms of disadvantages, these would be like those discussed in the previous option, namely that once the shareholders ceased to be customers profit maximisation drivers would lead to increased prices and reduced quality of service.

Mixed Shareholding Structure (Trust and Customers)

A mixed shareholding structure would be one whereby a certain proportion of shares were distributed to customers and the remainder retained in the Trust. Limited comment is offered on this option as relative to other options it is perceived as having the greatest number of disadvantages and very few (if any) advantages. In some ways, it would represent "the worst of both worlds" in so much as it would require the administration and organisational structure of both a Trust owed entity and an investor owned entity. Furthermore, balancing the interests of the Trust represented customers and the private shareholders would be problematic, subject to disputes, and slow moving. In summary, it is considered that attempting to structure a hybrid between the Trust and investor owned model is not realistically an effective option.

Concluding Comments On Ownership Options

In conclusion, it is worthwhile to reiterate that this consideration of options has been performed based on the interests of the existing customer shareholders. With this in mind, and given the analysis above and in preceding sections, it seems reasonable to conclude that whilst Scanpower Limited continues to perform at its current levels, there are no net financial or non-financial advantages to be gained by moving away from the existing trust ownership structure.

Section Five – Conclusions of the Trustees

In accordance with the Trust Deed, the Scanpower Trustees have reviewed the various ownership options for Scanpower Limited.

The Trustees met on 14th February 2017. At this meeting the Trustees agreed unanimously and resolved that the present Trust structure is the best form of ownership for the company. The Trustees will be making this recommendation to customers.

The Trustees will hold a public meeting on 28th March 2017 at the head office of Scanpower Limited to receive customer responses to the review and recommendation.

Section Six – Conclusions of the Directors

The Directors of Scanpower Limited have considered the question of the best future ownership structure for the company. The Directors have concluded unanimously that the present trust ownership structure is and will continue to be the best form of ownership. The Directors' conclusion is:

"It is the unanimous opinion of the Directors that the present trust ownership of all the shares in Scanpower Limited is not only the most advantageous form of ownership of the shares now, but is also likely to continue to be the most advantageous form of ownership in future years."

This was resolved by the Board on 6th December 2016 and is recorded in the minutes of that meeting (minute book reference 8100).

Section Seven – Share Distribution Plan

No share distribution plan is required based on the opinion of the Trustees that the current ownership structure is the best for Scanpower Limited.

Section Eight – Modifications Required to the Statement of Corporate Intent

Based on the conclusions reached by the Trustees, expressed above, no changes are required to the Statement of Corporate Intent as a result of the ownership review.

Section Nine – Summary of Professional Advice Received

The 2016 ownership review report was prepared under the supervision of Scanpower Limited Chief Executive, Lee Bettles.

In preparing the report, information and / or services provided by the following professional advisors was utilised:

- PriceWaterhouseCoopers (Chartered Accountants, Auckland)
    - Electricity Lines Business Information Disclosure Compendiums (2011 – 2016)
- Electionz (provider of election services, Christchurch)
    - Administration and collation of the customer survey.
- Ministry of Business, Innovation and Enterprise
    - Quarterly survey of domestic electricity prices, Lines company discount and energy trust distribution analysis 2015.