

# **Scanpower Limited Ownership Review Report**

Prepared on Behalf of

**The Trustees of the Scanpower Customer Trust**

November 2023

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## Introduction

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Scanpower Limited ('Scanpower') was incorporated as a company on 7 May 1993 having previously traded since 1925 as the Dannevirke Electric Power Board. All shares in the company were allocated to the Trustees of the Scanpower Customer Trust under the terms of the Trust Deed dated 30 April 1993.

It is a requirement of the Trust Deed (*clause 4.8b – Subsequent Reviews*) that, at intervals of no less than seven years and no greater than nine years, the Trustees undertake a formal review of the ownership structure of Scanpower Limited. The last review was completed in 2016 and accordingly this review falls within the prescribed timeframe.

The Trust Deed specifies that each ownership review must contain the following:

- i) A report on Scanpower Limited's performance compared with that of other electricity distribution companies.
- ii) Consideration of views held by the public (being customers connected to Scanpower's electricity network as end users) and a summary statement thereof.
- iii) An analysis of the performance of the Trust.
- iv) An analysis of other potential ownership options.
- v) A statement summarising the conclusions of the Trustees as to the most appropriate ownership structure through to the time of the next review.
- vi) A statement of the views and conclusions of the Board of Directors of Scanpower Limited.
- vii) A share distribution plan (if required).
- viii) A summary of changes required to the Statement of Corporate Intent (if required).

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ix) A summary of any professional advice received.

The report aims to meet the reporting requirements outlined above, and communicate the outcome of the ownership review process.

A compliance summary is provided below.

<b>Requirement</b>	<b>Clause</b>	<b>Met?</b>	<b>Page Ref</b>
Benchmark Scanpower performance	4.1.3	Yes	5
Consideration of public views	4.1.7	Yes	21
Trust performance assessment	4.1.1	Yes	22
Analysis of ownership options	4.1.2	Yes	26
Conclusions of the Trustees	4.1.4	Yes	32
Conclusions of the Directors	4.1.6	Yes	33
Share distribution plan	4.1.5	Yes	34
Changes required to SCI	4.1.9	Yes	35
Summary of professional advice	4.1.8	Yes	36

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## Section One – Scanpower Limited Performance

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### 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 entails undertaking a benchmarking study of Scanpower’s performance relative to other electricity distribution businesses using a selected range of appropriate measures.

The electricity distribution sector is subject to rigorous information disclosure regulations and correspondingly, detailed and objective benchmarking data is available and can be considered reliable due to the requirement for it to be audited. Each year, PWC publishes a compendium of all lines company disclosures and these have provided the data for the analysis undertaken herein, covering the period 2017 to 2022. For benchmarking purposes, the following performance areas and metrics have been selected:

- Network Reliability
  - SAIFI (Class B and C) – Average number of interruptions per customer per year.
  - SAIDI (Class B and C) – Average minutes loss of supply per customer per year.
  
- Operating Cost Performance
  - Operating Expenditure per Kilometre of Line.
  - Operating Expenditure per Customer Connection.
  
- Network Asset Health
  - Weighted Average Remaining Life (in Years) of Distribution Lines.
  - Weighted Average Remaining Life (in Years) of All Network Assets.
  
- Domestic Lines Charges
  - Annual Lines Charges Paid per Typical Domestic Customer.

The selection of these performance metrics is intended to provide a balanced assessment of Scanpower’s network performance and reflect the dimensions of service quality, cost, and asset stewardship.

### **Network Reliability**

#### *System Average Interruption Frequency Index (SAIFI)*

SAIFI stands for System Average Interruption Frequency Index. It is a standard, international metric used in the electricity distribution industry and measures the average number of times a customer experiences an interruption in their power supply over a specific period, typically a year. SAIFI helps assess the reliability of electricity distribution systems by quantifying the frequency of outages per customer. It is considered a crucial metric for lines companies to measure, monitor and improve their service quality.

SAIFI is calculated using the following formula:

$$SAIFI = \frac{\text{Sum of the Number of Connection Points Affected by Outages During the Year}}{\text{Average Number of Total Connection Points for the Year}}$$

For the purposes of benchmarking SAIFI performance, we have taken the following approach:

- Added up the annual SAIFI results of all New Zealand lines companies for the six disclosure years 2017, 2018, 2019, 2022, 2021, and 2022.
- Divided the total by six to give a measure of average interruptions per customer per year for the period.
- Sorted the resulting data on a descending basis (i.e. most interruptions per customer per year to least).

The results are provided in the table below.

**Table 1 – SAIFI Results by Lines Company 2017-2022 with Annual Average**

Name	2017	2018	2019	2020	2021	2022	Total	Average
Top Energy	5.65	5.34	4.10	4.78	4.93	5.44	30.24	5.04
The Lines Company	4.12	4.04	4.98	3.20	3.18	3.35	22.87	3.81
Counties Power	3.72	4.04	3.97	3.12	3.04	3.93	21.82	3.64
Eastland Network	4.52	3.48	3.84	3.44	3.43	2.01	20.72	3.45
Northpower	2.97	2.81	3.18	3.54	3.01	4.54	20.05	3.34
The Power Company	2.35	2.93	2.99	4.08	3.53	3.46	19.34	3.22
Buller Electricity	5.11	4.66	1.77	2.89	2.41	2.09	18.93	3.16
Otagonet	2.86	3.57	3.02	2.76	2.66	3.16	18.03	3.01
Horizon Energy Distribution	2.43	4.07	2.29	2.44	2.39	2.72	16.34	2.72
Aurora Energy	1.57	3.52	2.62	2.55	2.22	2.67	15.15	2.53
Powerco	2.68	2.48	2.49	2.27	2.21	2.60	14.73	2.46
Electra	1.50	2.08	1.26	1.87	0.97	5.79	13.47	2.25
Unison	2.22	3.04	2.26	2.13	1.74	2.03	13.42	2.24
Centralines	1.82	2.41	2.36	2.11	1.86	2.18	12.74	2.12
Vector	2.10	2.47	2.28	1.80	1.45	1.56	11.66	1.94
Waipa Networks	1.86	1.81	1.37	2.50	1.73	2.37	11.64	1.94
Westpower	1.58	2.74	1.80	1.92	1.61	1.98	11.63	1.94
Mainpower	1.42	1.47	1.62	2.26	2.30	2.48	11.55	1.93
Marlborough Lines	2.14	1.09	1.02	1.84	1.71	1.93	9.73	1.62
WEL Networks	1.48	1.73	1.66	1.64	1.03	2.15	9.69	1.62
Electricity Ashburton	1.44	1.90	1.46	1.74	1.46	1.45	9.45	1.58
Network Waitaki	1.02	1.70	1.68	1.21	1.17	1.96	8.74	1.46
Network Tasman	1.58	1.31	1.34	1.24	1.18	1.31	7.96	1.33
Alpine Energy	1.30	1.13	1.12	0.93	1.23	1.11	6.82	1.14
Scanpower	0.64	0.56	0.98	0.90	0.66	0.91	4.65	0.78
Electricity Invercargill	0.32	0.71	0.33	1.30	0.76	1.16	4.58	0.76
Orion	0.77	1.00	0.79	0.66	0.60	0.68	4.50	0.75
Wellington Electricity	0.92	0.78	0.50	0.48	0.43	0.47	3.58	0.60
Nelson Electricity	0.23	0.26	0.16	0.04	0.03	0.56	1.28	0.21

<i>Average</i>	<i>2.15</i>	<i>2.38</i>	<i>2.04</i>	<i>2.13</i>	<i>1.89</i>	<i>2.35</i>	<i>12.94</i>	<i>2.16</i>
<i>Median</i>	<i>1.82</i>	<i>2.41</i>	<i>1.77</i>	<i>2.11</i>	<i>1.73</i>	<i>2.09</i>	<i>11.66</i>	<i>1.94</i>
<i>Low</i>	<i>0.23</i>	<i>0.26</i>	<i>0.16</i>	<i>0.04</i>	<i>0.03</i>	<i>0.47</i>	<i>1.28</i>	<i>0.21</i>
<i>High</i>	<i>5.65</i>	<i>5.34</i>	<i>4.98</i>	<i>4.78</i>	<i>4.93</i>	<i>5.79</i>	<i>30.24</i>	<i>5.04</i>

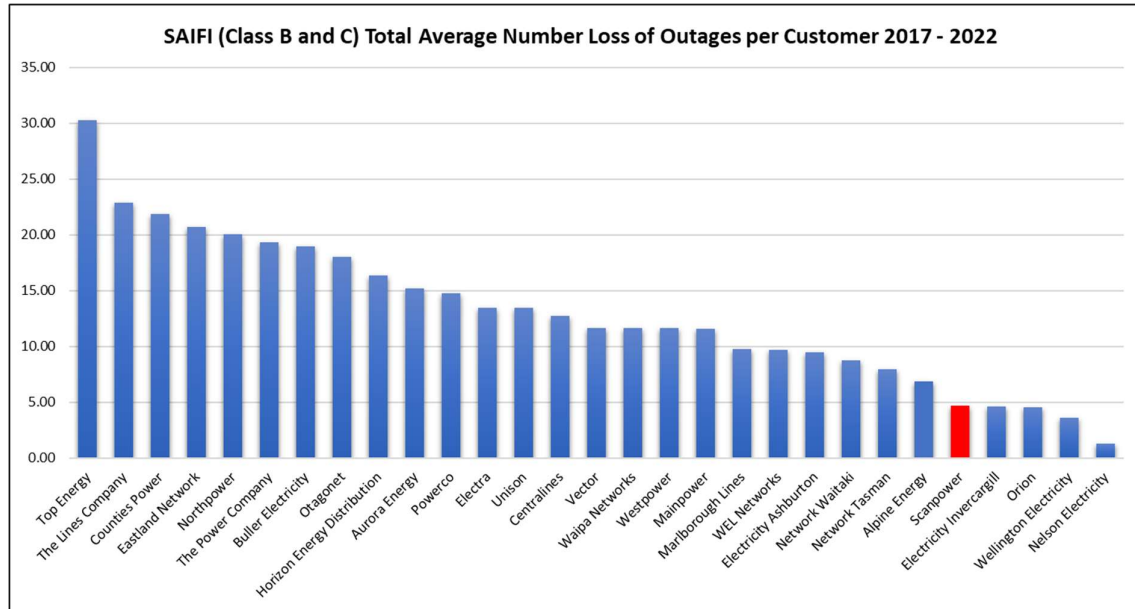
As is evident from the above data:

- Over the six year period, customers on the Scanpower network experienced an average of 0.78 outages per year. This compares favourably to the industry average of 2.16.

- This ranked fifth lowest / best of the twenty-nine lines companies.
- Scanpower did not experience a SAIFI result greater than 0.98 in any of the six years.

The results are presented graphically below.

**Figure 1 – Ranked Average SAIFI Results by Lines Company 2017-2022**



*System Average Interruption Duration Index (SAIDI)*

SAIDI stands for System Average Interruption Duration Index. Like SAIFI, it is an internationally standard metric used in the electricity distribution industry. It quantifies the average time that customers are without power over the reporting period, typically a year. In terms of service quality, a lower SAIDI value indicates better performance.

SAIDI is calculated using the following formula:

$$SAIDI = \frac{\text{Sum of Interruption Duration Factors for all Interruptions}}{\text{Average Number of Total Connection Points for the Year}}$$

For the purposes of benchmarking SAIDI performance, we have taken the following approach:



- Added up the annual SAIDI results of all New Zealand lines companies for the six disclosure years 2017, 2018, 2019, 2020, 2021, and 2022.
- Divided the total by six to give a measure of average time without power (in minutes) per customer per year for the period.
- Sorted the resulting data on a descending basis (i.e. most time without power per customer per year to least).

The results are provided in the table below.

**Table 2 – SAIDI Results by Lines Company 2017-2022 with Annual Average**

Name	2017	2018	2019	2020	2021	2022	Total	Average
Eastland Network	1,924	412	326	270	326	556	3,814	636
Top Energy	621	685	460	415	433	908	3,522	587
Buller Electricity	1,051	605	317	250	457	282	2,963	494
Horizon Energy Distribution	279	1,113	267	268	253	387	2,567	428
Counties Power	345	410	593	330	273	423	2,372	395
Otagonet	324	343	322	345	326	435	2,094	349
The Lines Company	329	304	389	333	355	335	2,045	341
Mainpower	546	168	233	343	321	382	1,993	332
Powerco	242	415	311	252	258	411	1,889	315
The Power Company	187	268	278	396	314	367	1,809	302
Vector	248	307	593	221	164	222	1,756	293
Aurora Energy	170	408	322	271	248	321	1,740	290
Waipa Networks	204	217	168	269	257	340	1,456	243
Westpower	150	492	164	230	180	231	1,447	241
Northpower	154	162	182	250	266	376	1,391	232
Electricity Ashburton	187	257	197	191	175	236	1,244	207
Unison	216	369	143	120	190	196	1,233	205
Network Tasman	186	232	240	185	204	176	1,222	204
Marlborough Lines	354	121	129	174	138	243	1,159	193
Alpine Energy	169	146	177	154	196	297	1,139	190
Centralines	130	189	158	149	157	216	999	166
Network Waitaki	126	135	148	124	197	167	897	150
WEL Networks	102	137	114	123	86	251	812	135
Scanpower	75	86	172	115	91	180	719	120
Electra	96	122	89	95	74	95	571	95
Orion	80	79	76	68	57	78	438	73
Wellington Electricity	131	67	34	34	37	40	343	57

**Table 2 Continued – SAIDI Results by Lines Company 2017-2022 with Annual Average**

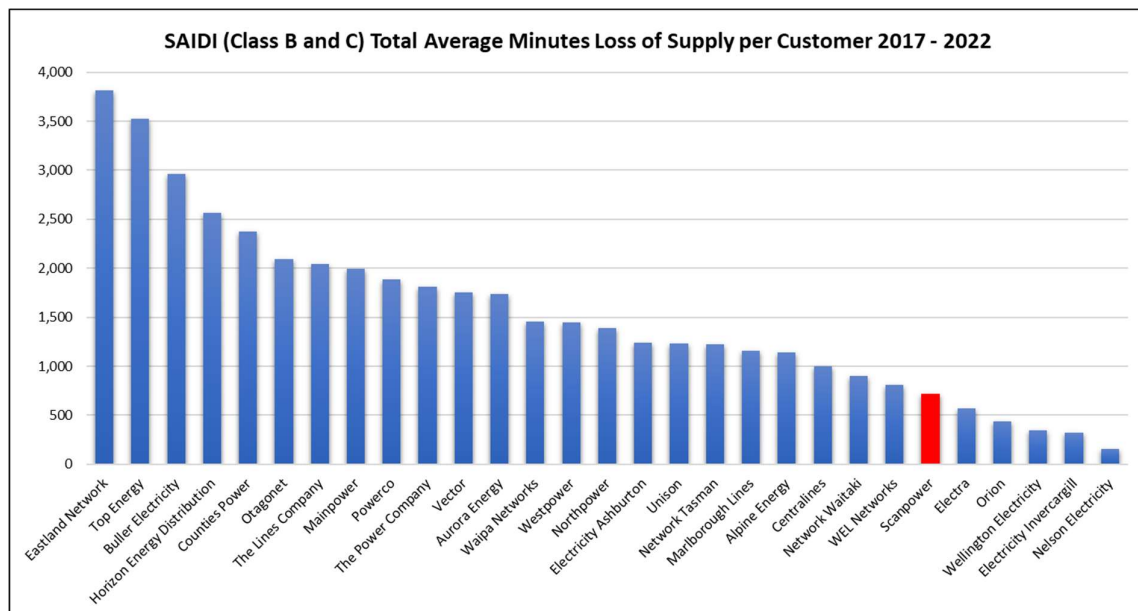
Name	2017	2018	2019	2020	2021	2022	Total	Average
Electricity Invercargill	18	47	22	79	50	105	320	53
Nelson Electricity	36	16	24	12	11	51	151	25
<i>Average</i>	<i>299</i>	<i>287</i>	<i>229</i>	<i>209</i>	<i>210</i>	<i>286</i>	<i>1,521</i>	<i>253</i>
<i>Median</i>	<i>187</i>	<i>232</i>	<i>182</i>	<i>221</i>	<i>197</i>	<i>251</i>	<i>1,391</i>	<i>232</i>
<i>Low</i>	<i>18</i>	<i>16</i>	<i>22</i>	<i>12</i>	<i>11</i>	<i>40</i>	<i>151</i>	<i>25</i>
<i>High</i>	<i>1,924</i>	<i>1,113</i>	<i>593</i>	<i>415</i>	<i>457</i>	<i>908</i>	<i>3,814</i>	<i>636</i>

As is evident from the above data:

- Over the six year period, customers on the Scanpower network experienced an average of 120 minutes loss of supply per year. This compares favourably to the industry average of 253 minutes.
- This ranked sixth lowest / best of the twenty-nine lines companies.

The results are presented graphically below.

**Figure 2 – Ranked Average SAIDI Results by Lines Company 2017-2022**



## Operating Cost Performance

### *Operating Expenditure per Circuit Kilometre of Line*

Industry Operating Expenditure per Circuit Kilometre of Line results for the year ended 31 March 2022 are as follows:

**Table 3 – Ranked Data, Operating Expenditure per Circuit Kilometre of Line (31/3/22)**

<b>Name</b>	<b>Total</b>
Electricity Invercargill	\$7,735
Nelson Electricity	\$7,718
Aurora Energy	\$7,446
Wellington Electricity	\$7,367
Vector	\$7,093
Buller Electricity	\$6,154
Electricity Ashburton	\$5,884
WEL Networks	\$5,807
Orion	\$5,478
Counties Power	\$5,429
Marlborough Lines	\$5,241
Alpine Energy	\$5,143
Waipa Networks	\$4,797
Top Energy	\$4,770
Unison	\$4,726
Westpower	\$4,724
Northpower	\$4,665
Network Waitaki	\$4,546
Eastland Network	\$4,387
Mainpower	\$4,136
Horizon Energy Distribution	\$4,073
Scanpower	\$3,666
The Lines Company	\$3,653
Powerco	\$3,575
Network Tasman	\$3,246
Electra	\$3,072
Centralines	\$2,887
Otagonet	\$1,890
The Power Company	\$1,859
<i>Average</i>	<i>\$4,868</i>
<i>Median</i>	<i>\$4,726</i>
<i>Low</i>	<i>\$1,859</i>
<i>High</i>	<i>\$7,735</i>

In calculating Operational Expenditure per Kilometre of Line, the following costs are included:

- All operating costs that are allocated to the electricity distribution part of Scanpower’s business, including expenditure relating to service interruptions and emergencies, vegetation management, routine and corrective maintenance and inspection, and asset replacement and renewal.
- All indirect operating expenditure relating to system operations, network support, and business support.

As is evident from the data, at \$3,666 Scanpower’s costs (when expressed this way) are lower than the industry average and rank eighth lowest of the twenty-nine lines companies.

#### *Operating Expenditure per Customer Connection*

When the same costs are expressed on a ‘per customer connection’ basis, the results are as follows:

**Table 4 – Ranked Data, Operating Expenditure per Customer Connection (31/3/22)**

<b>Name</b>	<b>Total</b>
Buller Electricity	\$840
Westpower	\$744
The Lines Company	\$676
Marlborough Lines	\$674
Electricity Ashburton	\$673
Alpine Energy	\$669
Network Waitaki	\$655
Top Energy	\$588
Centralines	\$585
Scanpower	\$571
Aurora Energy	\$496
Mainpower	\$496
Otagonet	\$472
Eastland Network	\$470
Northpower	\$463
The Power Company	\$447

**Table 4 Continued – Ranked Data, Operating Expenditure per Customer Connection (31/3/22)**

<b>Name</b>	<b>Total</b>
Horizon Energy Distribution	\$424
Counties Power	\$415
Waipa Networks	\$392
Unison	\$379
WEL Networks	\$334
Orion	\$301
Electra	\$301
Electricity Invercargill	\$293
Powerco	\$293
Network Tasman	\$288
Nelson Electricity	\$246
Vector	\$230
Wellington Electricity	\$206
<i>Average</i>	<i>\$470</i>
<i>Median</i>	<i>\$463</i>
<i>Low</i>	<i>\$206</i>
<i>High</i>	<i>\$840</i>

At \$571 per connection, Scanpower’s costs (when measured on this basis) are higher than the industry average of \$470 and rank tenth highest.

### **Network Asset Health**

#### *Weighted Average Remaining Life (in Years) of Distribution Lines*

This measure has been selected because it provides an insight into the health of the company’s distribution line assets on the basis of age, which in turn is a reflection of how diligently the organisation has replaced / renewed network assets.

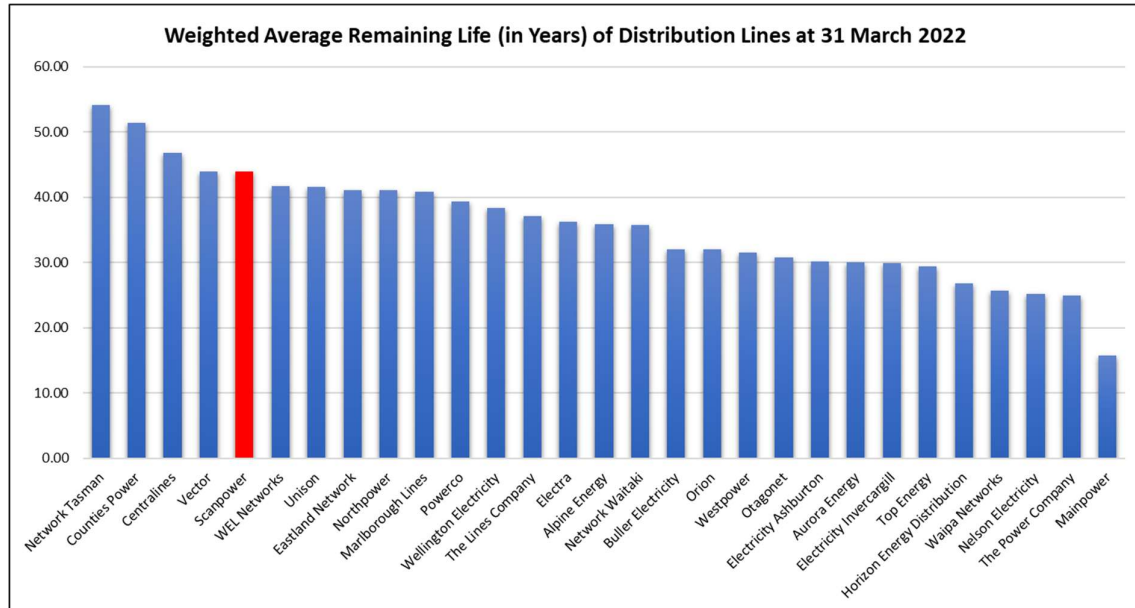
The benchmarking data as at 31 March 2022 is provided in the table below. To provide context, a concrete pole distribution line has a typical useful service life of sixty years, whilst a wood pole line has a life of forty-five years. Approximately 85% of Scanpower’s lines are now of concrete pole construction.

**Table 5 – Weighted Average Remaining Life (in Years) of Distribution Line Assets at 31 March 2022**

<b>Name</b>	<b>Remaining Life in Years</b>
Network Tasman	54.10
Counties Power	51.40
Centralines	46.80
Vector	44.00
<b>Scanpower</b>	<b>43.90</b>
WEL Networks	41.70
Unison	41.60
Eastland Network	41.10
Northpower	41.10
Marlborough Lines	40.80
Powerco	39.30
Wellington Electricity	38.40
The Lines Company	37.10
Electra	36.30
Alpine Energy	35.90
Network Waitaki	35.70
Buller Electricity	32.00
Orion	32.00
Westpower	31.50
Otagonet	30.80
Electricity Ashburton	30.10
Aurora Energy	30.00
Electricity Invercargill	29.90
Top Energy	29.40
Horizon Energy Distribution	26.80
Waipa Networks	25.70
Nelson Electricity	25.20
The Power Company	25.00
Mainpower	15.70
<i>Average</i>	<i>35.63</i>
<i>Median</i>	<i>35.90</i>
<i>Low</i>	<i>15.70</i>
<i>High</i>	<i>54.10</i>

As is evident, Scanpower’s distribution line assets have a weighted average remaining life of 43.90 years, ranking fifth highest in the industry, and well above the average of 35.63 years. Relative to a service life of sixty years, the assets are therefore relatively young (approximately one third of the way through their lives on an aggregated basis).

**Figure 3 – Ranked Weighted Average Remaining Life (in Years) of Distribution Lines at 31 March 2022**



*Weighted Average Remaining Life (in Years) of All Network Assets*

This measure is similar to the preceding one except that it covers all categories of network assets including distribution lines, distribution transformers, switchgear, customer connections, fusing, and voltage regulators. Again, this provides an insight into how the company has performed in terms of asset replacement and renewal across the entire network asset base.

The data provided below is presented as at 31 March 2022.

**Table 5 – Weighted Average Remaining Life (in Years) of All Network Assets at 31 March 2022**

Name	Remaining Life in Years
Network Tasman	44.20
Counties Power	43.90
Centralines	41.50
Vector	38.20
Scanpower	38.10
Powerco	37.40
Unison	37.40
Eastland Network	37.30
WEL Networks	37.30
Northpower	36.10

**Table 5 Continued – Weighted Average Remaining Life (in Years) of All Network Assets at 31 March 2022**

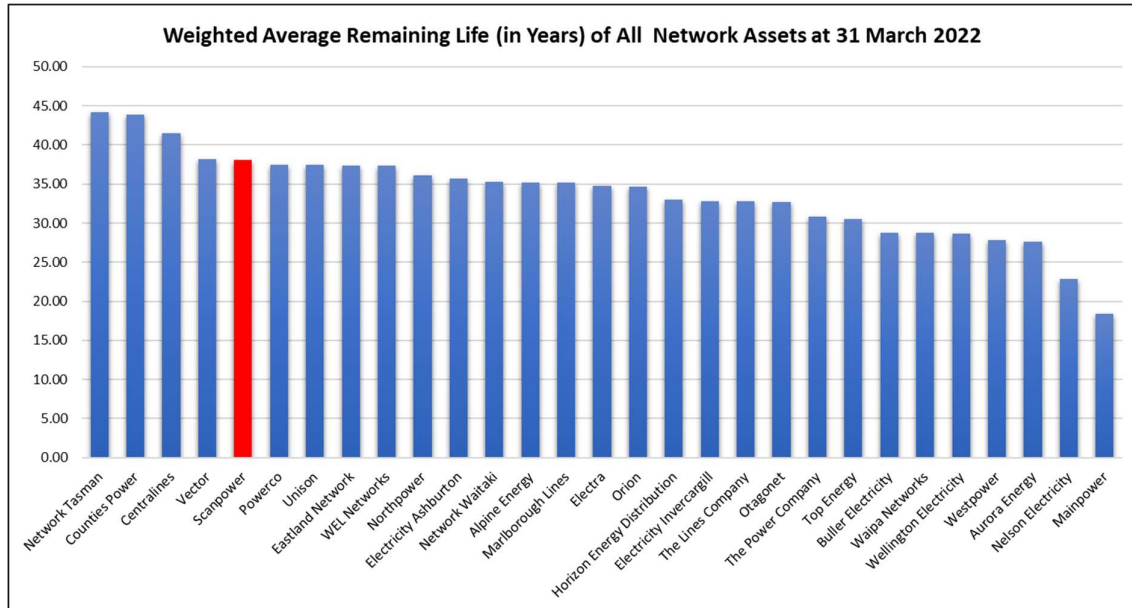
<b>Name</b>	<b>Remaining Life in Years</b>
Electricity Ashburton	35.70
Network Waitaki	35.30
Alpine Energy	35.20
Marlborough Lines	35.20
Electra	34.80
Orion	34.70
Horizon Energy Distribution	33.00
Electricity Invercargill	32.80
The Lines Company	32.80
Otagonet	32.70
The Power Company	30.80
Top Energy	30.50
Buller Electricity	28.80
Waipa Networks	28.80
Wellington Electricity	28.60
Westpower	27.80
Aurora Energy	27.60
Nelson Electricity	22.90
Mainpower	18.40
<i>Average</i>	<i>33.72</i>
<i>Median</i>	<i>34.80</i>
<i>Low</i>	<i>18.40</i>
<i>High</i>	<i>44.20</i>

The weighted average remaining life of Scanpower’s consolidated network assets is 38.10 years, ranking fifth highest, and above the industry average of 33.72. It is lower than the weighted average remaining life for distribution lines due to the inclusion of assets (such as fuses) which have a much shorter service life than poles and overhead conductor.

The results are presented graphically below.



Figure 4 – Ranked Weighted Average Remaining Life (in Years) of Distribution Lines at 31 March 2022



**Domestic Lines Charges**

*Annual Lines Charges Paid per Typical Domestic Customer.*

At the time of preparing this report, Scanpower has 4,986 residential customer connections, representing 73% of total connections on the network.

Per MBIE electricity cost monitoring data, lines charges typically make up 38% of the costs included in customer power bills, with the balance comprising generation, retail, metering, and industry regulatory costs. Of the distribution sector’s 38%, a proportion reflects the pass through of transmission costs levied by the national grid operator Transpower. In Scanpower’s case, transmission costs are 18% of total distribution revenue.

It should be noted that transmission costs can vary quite significantly between regions, and between the North and South Island, with a flow-on effect on to lines charges. Correspondingly, for the purposes of comparing lines charges between distributors, we have selected a sample of companies operating in geographic proximity to Scanpower, as follows:

**Table 6 – Sample Selection for Benchmarking of Domestic Lines Charges**

<b>Lines Company Name</b>	<b>Main Supply Area</b>
Horizon Energy	Whakatane
Firstlight Networks (formerly Eastland Networks)	Gisborne
Unison	Hawke's Bay
Centralines	Waipukurau
Scanpower	Dannevirke
Powerco (Manawatu)	Palmerston North
Powerco (Wairarapa)	Masterton

Benchmarking calculations have included the following variables and assumptions:

- The pricing used is that applicable to domestic / residential connections as published by each company (effective 1 April 2023).
- Annual consumption of 8,000 kWh.
- A 75 / 25 split between day / night electricity consumption and uncontrolled / controlled consumption.
- In the case of Powerco pricing, which includes day-time peak and off-peak pricing rates, a 50 / 50 consumption split has been assumed.
- Given assumed annual consumption of 8,000 kWh, standard (rather than low user) rates have been used.
- Where there are sub-categories of rates within the domestic standard and domestic low user pricing structures, that with the highest number of customers has been selected.
- Any network discounts or annual rebates have been applied to produce a net cost.

The pricing calculations are summarised in the table below.

**Table 7 – Net Annual Lines Charges Payable per Domestic Customer Using 8,000 kWh per Annum**

Lines Company Name	Main Supply Area	Net Annual Lines Charges
Centralines	Waipukurau	\$1,435.63
Powerco (Wairarapa)	Masterton	\$1,223.31
Firstlight Networks (formerly Eastland Networks)	Gisborne	\$1,095.76
Powerco (Manawatu)	Palmerston North	\$1,025.17
Horizon Energy	Whakatane	\$1,002.83
Scanpower	Dannevirke	\$999.70
Unison (Hawke's Bay)	Hastings / Napier	\$718.30

Average	\$1,071.53
Median	\$1,025.17

Scanpower's net line charges for a domestic customer using 8,000 kWh per annum fall below the regional average and median totals, with only customers connected to the Unison (Hawke's Bay) network enjoying lower costs.

### **Benchmarking Conclusions – Scanpower Performance**

Reflecting on the above analysis, Scanpower's performance compared with other companies involved in electricity distribution may be characterised as follows:

- The company's electricity network is significantly more reliable than most others, and consistently performs in the top industry quartile in terms of SAIDI and SAIFI metrics. This is despite being a predominantly rural, overhead network with low connection density.
- Operating cost structures benchmark at the top and bottom of the mid-range, depending on how those costs are expressed (i.e. per connection or per line kilometre). Therefore they are not particularly low, but nor are they particularly high.
- When analysed on the basis of age and remaining life, the company's network assets are relatively young and in good health. This is the result of prudent stewardship and asset management, the outcomes of which are reflected in the strong reliability performance.
- Lines charges payable by domestic customers (73% of the customer base) are, on average, lower than those paid in most neighbouring networks.

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In combination, these metrics point to the fact that Scanpower is delivering high quality, low cost electricity distribution services to its customers relative to the wider industry. Therefore, this section concludes with the view that Scanpower is performing strongly relative to other electricity lines businesses.

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## Section Two – Consideration of Views Expressed by the Public

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Section 4.1.7 of the Trust Deed requires that the Ownership Review Report includes a statement as to whether the Trustees have had regard to views expressed by the public with respect to ownership options and structure. In this context ‘the public’ refers to customers having an end-use electricity connection to the company’s electricity network.

To fulfil this requirement, the Trustees of the Scanpower Customer Trust engaged ‘Electionz’ to conduct a mail / online survey of all connected customers as to their preferred ownership option. Electionz is a leading company in this field, specialising in local body elections and market research surveys of this nature.

Survey packs were lodged in the mail on 2 October 2023, at the same time that the online survey portal was made available. The survey closed on 20 October 2023, however to mitigate delays in the postal system, mail responses were held open up to 24 October 2023.

The results were as follows:

**Table 8 – Customer Survey Results**

<b>Preferred Future Ownership Option</b>	<b>Responses</b>	<b>% of Total Responses</b>
A continuation of the current trust structure	1,668	98.1%
An outright sale of Scanpower Limited	20	1.2%
An alternative form of ownership structure	13	0.7%
<b>Total</b>	<b>1,701</b>	<b>100%</b>

As is evident, the results indicate a strong public / customer preference for continuation of the existing trust ownership structure, with 98.1% of respondents favouring this option.

### **Section Three – Performance of the Trust**

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Shares in Scanpower Limited are held in Trust by the Trustees of the Scanpower Customer Trust on behalf of end-use customers connected to the company's electricity network (the beneficiaries of the Trust). The Trustees have fiduciary obligations to the beneficiaries, in particular:

- To act in the best interests of the beneficiaries by protecting and growing the value of the Trust's investment in Scanpower Limited.
- 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 it).
- To be thoroughly familiar with the terms of the Trust Deed.

In conjunction with these obligations, the Trustees are responsible for several key duties which include:

- Appointing and removing Directors so as to ensure a well functioning Board is in place.
- Setting organisational operating parameters and annual key performance targets through the Statement of Corporate Intent process.
- Undertaking periodic ownership reviews.
- Organising 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 this report, as in previous reports, we will first analyse performance in terms of the value of shareholders' funds / equity (in Scanpower) for the period since the last review.

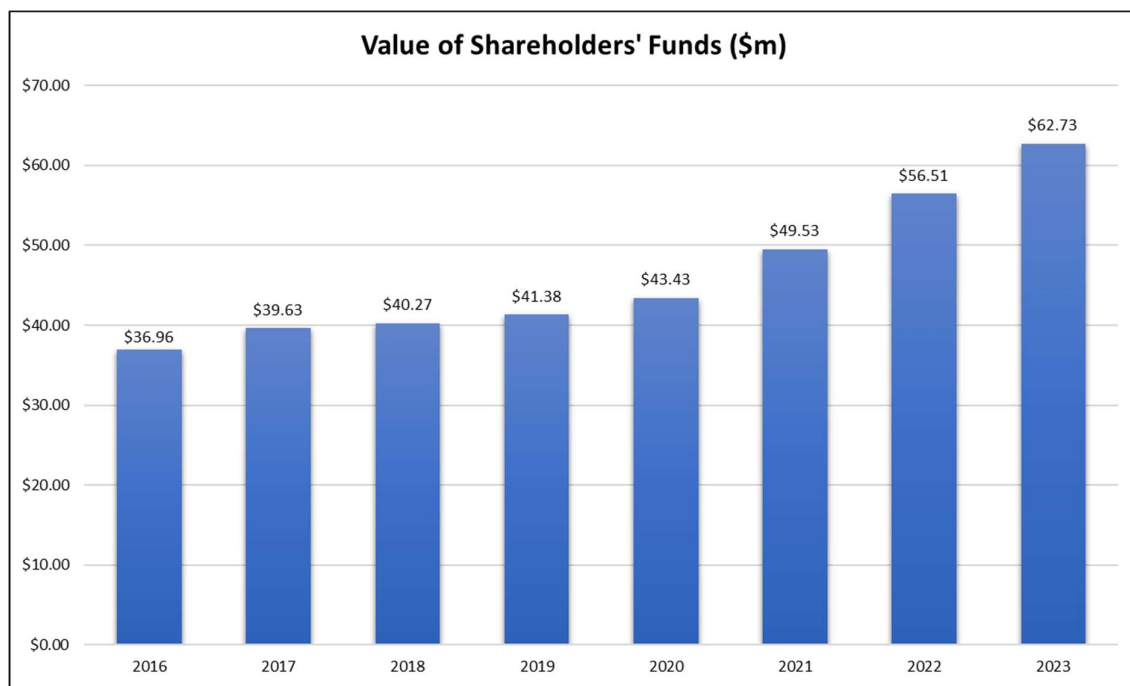
*Financial Trend – Value of Shareholders’ Equity*

The audited financial statements of Scanpower Limited indicate, on an annual basis, the value of shareholders’ equity in the company. This is the asset for which the Trustees are responsible. The following table and graph show the movement in shareholders’ equity since the last ownership review in 2016.

**Table 9 – Scanpower Limited Shareholders’ Funds (2016 to 2023)**

Year	2016	2017	2018	2019	2020	2021	2022	2023
Shareholders' Funds (\$m)	\$36.96	\$39.63	\$40.27	\$41.38	\$43.43	\$49.53	\$56.51	\$62.73

**Figure 5 – Scanpower Limited Shareholders’ Funds (2016 to 2023)**



As is evident, as at 31 March 2016 shareholders’ funds were valued at \$36.96m. By 31 March 2023 it had increased to \$62.73m, appreciating in value by \$25.77m or 70%. This movement represents a simple annual growth rate of 10%, or a compounding annual growth rate of 7.85%.

Noting that the Trust’s investment in Scanpower is relatively low risk (given that it is predominantly a monopoly utility company), it is suggested that this rate of value growth should be interpreted as healthy and strong.

### *Qualitative Assessment of Trust Performance*

In assessing the performance of the Trust and the Trustees, and in the context of the duties outlined above, the following have been noted:

- Since the last ownership review, the Trustees have completed a critical review and update of the Trust Deed. This involved an application to the High Court and resolved a longstanding issue concerning key definitions contained within the Deed. The resulting changes will ensure that the interests of connected customers are protected for the long term.
- In 2019 The Trustees, in conjunction with the Board, initiated an 'Aspiring Directors Programme' for the purposes of identifying and developing potential future directors for Scanpower Limited. This was motivated by a desire to improve director succession planning and grow governance talent locally within the network area. Two successful candidates were selected and over a two year period they attended company board meetings, and were sponsored to complete the NZ Institute of Directors one week, residential 'Company Directors Course'. One of the programme graduates, David Veale, has subsequently formally joined the Scanpower board as a Director.
- To further improve director succession management, the Trustees approved a change to the company constitution to increase the maximum number of directors from five to six so as to improve the pipeline of future directors, given the approaching retirement of a number of existing board members.
- Notwithstanding the unexpected, but necessary, mid-term resignation of Trustee Mel Poulton, the remaining Trustees continue to meet on a structured and regular basis. This includes the review of company board meeting minutes and monthly performance reports. The meetings are attended by the Scanpower CEO who provides a verbal update on company affairs and responds to questions from the Trustees. By taking this diligent approach, the Trustees ensure that their understanding of company performance is kept current. The Trust Chair also meets annually with the company's auditors.



- In terms of monitoring the external strategic environment and developments within the industry, the Trustees send a delegation to all ETNZ (Electricity Trusts of New Zealand) conference events.
- Since the time of the last ownership review, the Trust has met all of its regulatory and legislative obligations, with no breaches of any kind. This includes review, comment, and approval of the annual Statement of Corporate Intent.
- The Trust operates on a low cost basis, sustaining itself on an annual dividend from Scanpower Limited of \$125,000 in recent years. This represents only 0.2% of the \$62.73m held in assets (as at 31 March 2023).

Based on the commentary above, and the trend analysis of shareholders' funds, this report suggests that it is appropriate to conclude that the Trust, and the Trustees, are performing effectively and efficiently. They are meeting their obligations to the customer beneficiaries and delivering positive outcomes for them.

## Section Four – Review of Ownership Options

### Trust Ownership Option

The existing trust ownership structure has been in place since the incorporation of Scanpower Limited in 1993, having been approved as the preferred option in the five previous ownership reviews (1996,2001,2006,2011, and 2016). Nationally, trust ownership remains the most common within the electricity distribution sector. As per the table below, of the twenty-nine lines companies, nineteen continue to prefer the trust ownership structure, with two hybrid trust structures, and one co-operative. Only the remaining seven are in private or local authority ownership.

**Figure 6 – Electricity Lines Business Ownership Structures**

	Ownership	Distributions to Consumers and Shareholders
Alpine Energy	Local Authority/Trust	dividend
Aurora Energy	Local Authority	dividend
Buller Electricity	Trust	dividend
Centralines	Trust	discount/dividend
Counties Energy	Trust	discount/dividend
EA Networks	Co-operative	discount
Eastland Network	Trust	dividend
Electra	Trust	discount/dividend
Electricity Invercargill	Local Authority	dividend
Horizon Energy Distribution	Trust	dividend
MainPower New Zealand	Trust	rebate
Marlborough Lines	Trust	discount/dividend
Nelson Electricity	Marlborough Lines/Network Tasman	dividend
Network Tasman	Trust	discount/dividend
Network Waitaki	Trust	discount/dividend
Northpower	Trust	discount/dividend
Orion New Zealand	Local Authority	dividend
OtagoNet Joint Venture	Electricity Invercargill/The Power Company	distributions
Powerco	AMP Capital/Queensland Investment Corporation	dividend
Scanpower	Trust	discount/dividend
The Lines Company	Trust	discount/dividend
The Power Company	Trust	discount
Top Energy	Trust	discount/dividend
Unison Networks	Trust	dividend
Vector	Trust/Public	dividend
Walpa Networks	Trust	discount
WEL Networks	Trust	discount/dividend
Wellington Electricity Lines	CK Infrastructure Limited and Power Assets Holdings Limited	dividend
Westpower	Trust	discount/dividend

Source: PWC Electricity Line Business 2022 Information Disclosure Compendium (page 20)

Noting the preponderance of trust ownership structures throughout New Zealand, it is perhaps worthwhile to consider why this is the case, and highlight the following points:

- Electricity distribution is an essential service (increasingly so in a decarbonised environment) demanded by the entire population.
- Electricity lines businesses enjoy a natural monopoly, with clear geographically defined boundaries.
- Surplus electrical capacity is a prerequisite of economic growth and an improving standard of living.

With this in mind, it is perhaps unsurprising that consumers in a given network area would prefer to have a shareholding interest (through the Trust) in the lines company supplying their electricity. Such interest not only provides financial benefits (through low lines charges and annual network discounts), but also the ability to genuinely access and control how the lines company operates through the Trust / Statement of Corporate Intent (SCI) process.

Put another way, the trust ownership structure empowers customers to ensure that the local electricity network is operated in a manner congruent with their interests in that:

- Surplus profits / cashflows are returned to the consumer shareholders in the network supply area.
- This in turn removes the ability or incentive for the lines company to set its prices any higher than it needs to, as there is little point in ‘taking revenue with one hand, to give it back with the other’.
- Reliability performance expectations / targets can be set by consumers via the SCI.
- The risk of short-term profit maximisation (that might be prevalent under private ownership) is mitigated, and assets are maintained on a sustainable and prudent basis for the long term benefit of the consumers and community.

- 
- Sponsorship and donation activity undertaken by the company can be dedicated to locally relevant recipients within the network area.

Therefore, over the long term, the benefits that a ‘customer shareholder’ ownership structure provides to customers are intuitively self-evident, and accordingly it is no surprise that 98% of them continue to support this model, as per the earlier survey results.

In terms of potential disadvantages, those critical of the trust ownership model have historically pointed to the following alleged weaknesses:

- High costs associated with the administration of a Trust.
- Potential difficulties (relative to other ownership structures) with raising new capital.
- Lack of access to economies of scale.
- Propensity to indulge in special interest projects.

On the first point, as noted in the review of Trust performance above, at \$125,000 the annual running costs are modest relative to value of assets held / under control (\$62.73m). It is hard to foresee the administration costs of alternative ownership structures (e.g. maintaining a NZX listing) being lower, and most likely significantly higher.

In regard to capital raising, whilst trust ownership does not provide the option of issuing new shares for this purpose, to date Scanpower has had no difficulties obtaining finance through its banking providers and as per a recent review of banking arrangements continues to carry a comfortable level of headroom in terms of borrowing options.

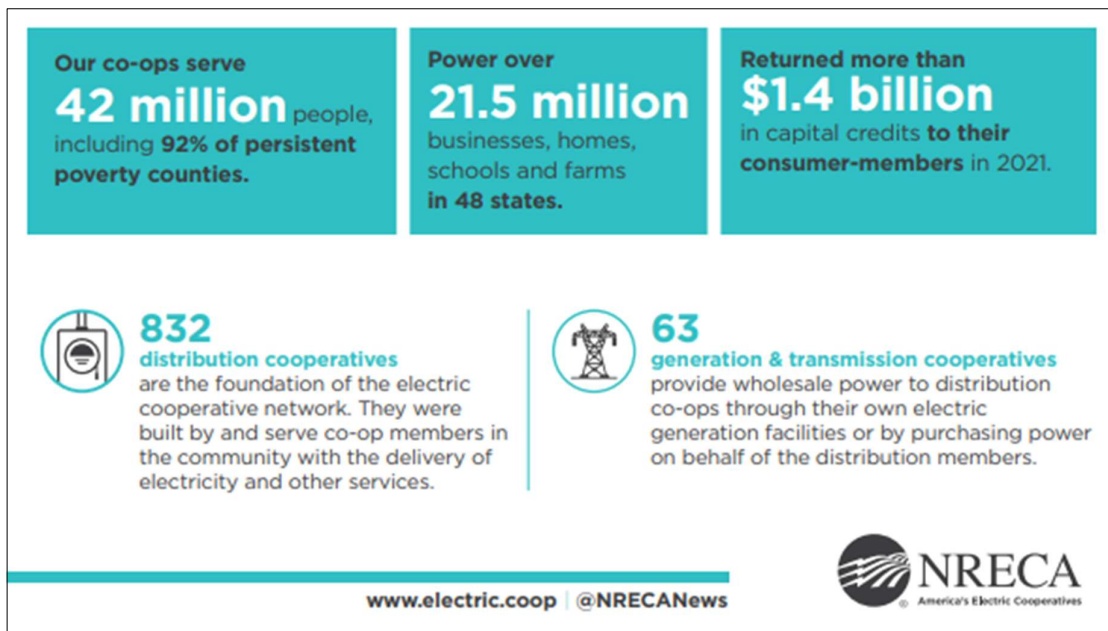
On the matter of economies of scale, we are unaware of any compelling evidence or research that proves larger electricity distribution businesses are significantly more efficient than smaller ones, or confirms the customer numbers at which economies and diseconomies of scale occur. A comprehensive analysis commissioned by ETNZ found little or no correlation between size and efficiency / performance in New Zealand. We believe that the benchmarking assessment undertaken in this report supports this conclusion.

Arguments that focus on the benefits of scale are, in our opinion, largely academic in nature. It is interesting to note that 56% of the North American landmass is supplied by 832 electricity distribution cooperatives. These range in size from 683 connected consumers (City of Stromsburg distribution cooperative, Nebraska) to 271,000 connected consumers (Pedernales Electricity Cooperative, Texas). These cooperatives are analogous to trust owned lines companies in New Zealand in terms of ownership structure; to quote the NRECA (National Rural Electric Cooperative Association):

*‘Electric cooperatives are built by and belong to the communities they serve. They are led by members from the community and are uniquely suited to meet local needs’*

The point here is that if economies of scale were accessible through scale, particularly in a rural environment, in the USA (of all places – being the epitome of capitalism) they would have responded accordingly, but the existence of NRECA indicates otherwise.

Figure 7 – National Rural Electric Cooperative Association (USA)



Source: [www.electric.coop/wpcontent/uploads/2023/04/2023\\_NC5233\\_Coop\\_FactsAndFigures\\_4.10.23\\_v3.pdf](http://www.electric.coop/wpcontent/uploads/2023/04/2023_NC5233_Coop_FactsAndFigures_4.10.23_v3.pdf)

Turning to the final purported disadvantage of trust ownership, that there is a tendency for those in governance positions to indulge in special interest projects, in the case of Scanpower:

- The Statement of Corporate Intent limits discretionary sponsorship and donation activity to \$50,000 per year.
- Surplus funds are returned directly to consumers via the annual network discount mechanism.
- Other than the \$125,000 the Trust receives annually to cover its running costs, it does not receive or disburse any form of funds.

Correspondingly, this potential disadvantage does not apply to Scanpower's ownership structure.

### **Alternative Ownership Options**

Alternatives to the current trust ownership model include:

- An outright sale of Scanpower Limited, with proceeds distributed to customers connected to the network on the day of settlement.
- Ownership of shares in Scanpower Limited transferred to customers on a pro rata basis at a given vesting date.
- A mixed ownership model whereby a proportion of shares remained with the Trust and a proportion

At a macro level, all of the above alternatives would either immediately, or over time, result in a splitting of the 'customer and shareholder' relationship that exists under the current trust model. Through an outright sale (most likely to a larger NZ lines company), shareholding benefits and rights would transfer out of the community, whilst under a share transfer model, local ownership would dilute slowly as shares were sold over time.

This transfer of interests would most likely bring with it a profit maximisation imperative that would likely see:

- Lines charges increased to the regulatory maximum.
- Cessation of the annual network discount.
- Cost cutting measures that would impact adversely on the quality of both network reliability and local customer service.
- A loss of affinity with the local community.

Whilst these factors would be to the advantage of the new shareholders, they would have a corresponding disadvantage to local customers. When the shareholders and customers are one and the same (per the current model) the tension between competing interests is held in balance. However any divergence between shareholder and customer interests from the status quo will over time deliver worse outcomes for customers. This fundamental concept is probably why trust ownership has and continues to remain their preferred option.

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## Section Five – Conclusions of the Trustees

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At a meeting on 13 December 2023, the Trustees of the Scanpower Customer Trust reviewed and discussed the Ownership Review Report, in particular noting:

- The views expressed by the customer beneficiaries of the Trust; and
- The results of the benchmarking performance study of Scanpower Limited; and
- The conclusions of the Directors of Scanpower Limited.

It was then moved:

**Moved:** Myles McKeefry  
**Seconded:** Jim Crispin

**“THAT having received the Ownership Review Report, and considered matters such as company performance as benchmarked against other lines companies, and the overwhelming preference expressed by customers in favour of continued trust ownership, the Trustees of the Scanpower Customer Trust now conclude that retaining the current trust ownership structure is the most beneficial for customers now and will continue to be so until at least the time of the next ownership review”**

The motion was passed unanimously.



## **Section Six – Conclusions of the Directors**

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The Directors of Scanpower Limited have considered the question of the best future ownership structure for the company. At a Board Meeting on 8 November 2023 they unanimously passed a resolution stating their conclusion as:

**Moved:                    Allan Benbow**  
**Seconded:                Sean Stafford**

**“THAT it is the unanimous opinion of the Directors that the present trust ownership of all shares in Scanpower Limited is not only the most advantageous form of ownership now, but is likely to continue to be the most advantageous form of ownership in future years”.**

This resolution was recorded in the company minutes at reference 8702.

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**Section Seven – Share Distribution Plan**

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No share distribution plan is required based on the opinion of the Trustees that a continuation of the current trust ownership structure will deliver the greatest benefit to customers (being the beneficiaries of the Scanpower Customer Trust).

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**Section Eight – Modifications Required to the Statement of Corporate Intent**

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Based on the conclusions of the Trustees, no changes are required to the Statement of Corporate Intent.

## **Section Nine – Summary of Professional Advice Received**

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The 2023 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 were utilised:

- PWC
  - Electricity Lines Business Information Disclosure Compendiums (2017 – 2022)
  
- Electionz
  - Administration and collation of the customer survey
  
- Ministry of Business, Innovation and Enterprise
  - Quarterly survey of domestic electricity prices