

Central Hawke's Bay Consumer Power Trust Ownership Review

MARCH 2024



Central Hawke's Bay Consumer Power Trust Ownership Review 2024

In 1992 the directors of the former Central Hawke's Bay Power Board consulted the community about ownership and shareholding options for Central Hawke's Bay's local electricity network company, Centralines Limited. The local response favoured trust ownership, so in 1993 a trust was formed to hold the shares. Today, all the shares in Centralines are held by the Central Hawke's Bay Consumer Power Trust (CHBCPT) for the benefit of electricity consumers in Central Hawke's Bay.

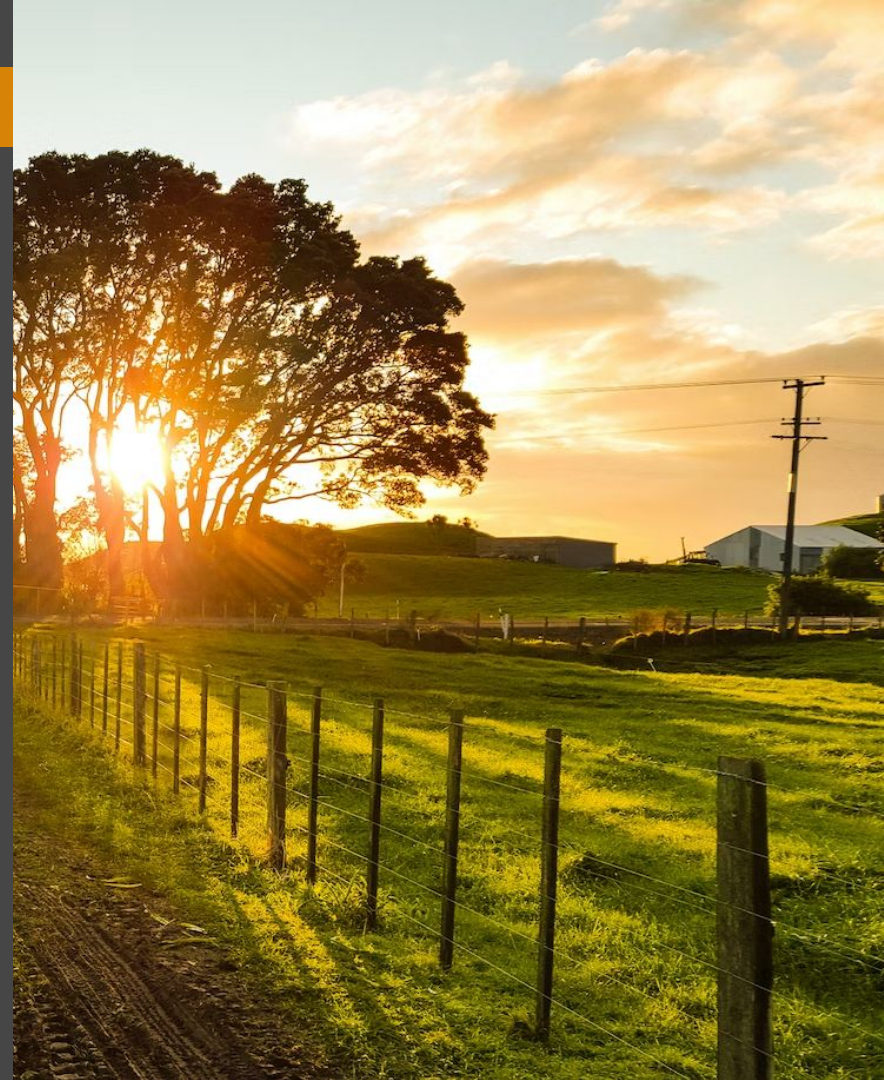
According to the Trust Deed, every five years CHBCPT Trustees must review the ownership options and present the review to consumers. The review analyses the performance of the Trust to date, and discusses the advantages and disadvantages of other ownership options. You can read the review, prepared by PwC Consulting, and the various ownership options on the pages below.

The CHBCPT is seeking the public's views about the future of Centralines ownership. Based on public support of the trust model as shown in previous ownership reviews, and on Centralines' Board's unanimous support of the trust model, the Trust is unanimously in favour of Centralines remaining in Trust ownership (status quo). However, no decision will be taken until the views of the public have been considered and the public consultation period has concluded.

**Information on making a submission can be found on the Centralines website at:
www.centralines.co.nz**

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Introduction

Introduction

Introduction and purpose

This report has been prepared for CHBCPT to support the review of the Trust's ownership of Centralines and any other significant assets.

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

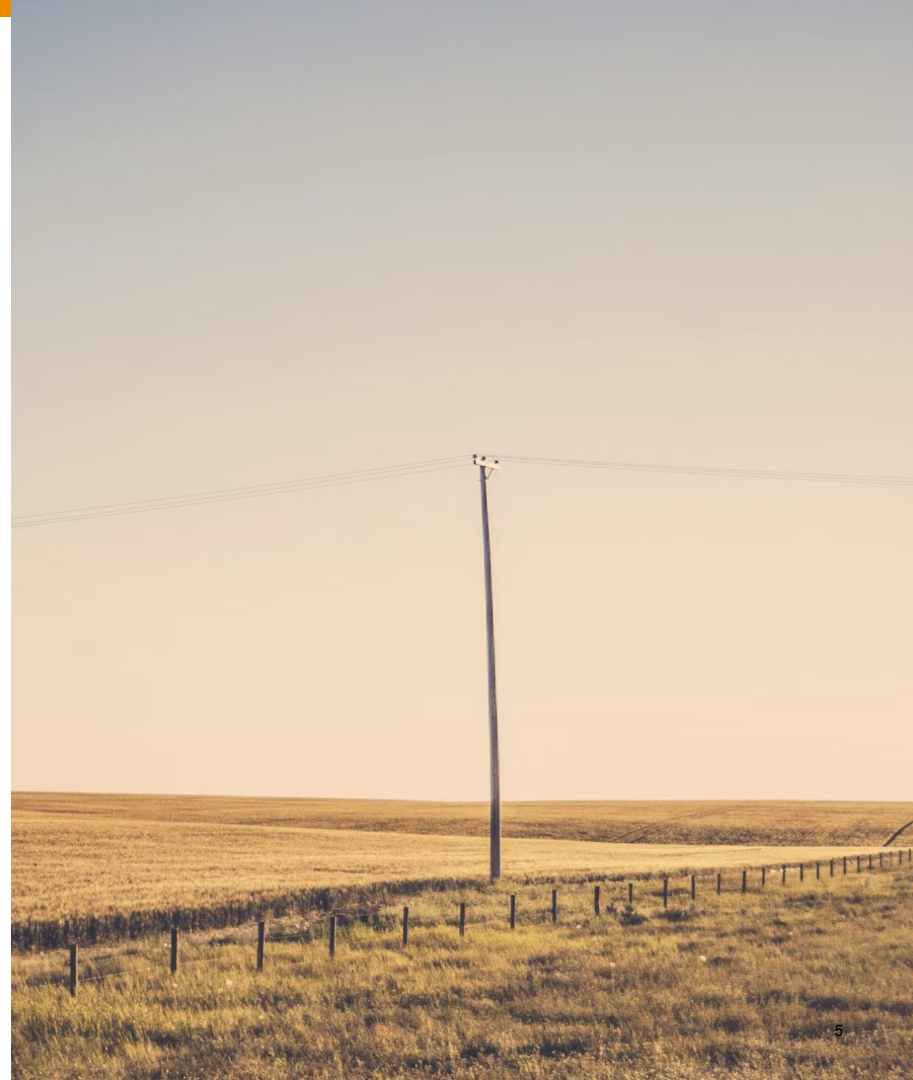
- A. an analysis of the performance of the Trust to the date of the report together with a summary of the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to consumers;
- B. an analysis of other ownership options including, without limitation, an asset distribution to Consumers, sale of shares and other assets to the public, and the sale of shares and other assets to institutional investors, compared with retention of ownership by the Trust;
- C. a comparison of the Company's performance with the performance of other companies engaged in energy distribution.

This report has been structured into four parts:

1. review of Centralines' performance over the last five years (FY19-FY23, the review period)
2. review of Centralines' performance relative to comparable electricity distribution businesses (EDBs)
3. review of CHBCPT's performance including comparison with other energy sector trusts
4. analysis of ownership options including retaining the current consumer trust ownership structure.

A summary of our analysis is included in the Executive Summary.

In conducting this review, PwC has relied on information supplied by Centralines, publicly available information and interviews with CHBCPT trustees, and Directors and management of the Company.



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Executive summary

Executive summary

CHBCPT

Central Hawke's Bay Consumers Power Trust (CHBCPT) was established in 1993 and is the sole shareholder in Centralines Limited, an electricity distribution company based in the Central Hawke's Bay region. The Trust holds the shares of Centralines on behalf of the beneficiaries, who are defined in the Trust Deed as Centralines' consumers.

CHBCPT performance highlights

- In October 2020 the High Court granted amendments to the Trust Deed following application by the CHBCPT trustees. The change means that consumers are fully responsible for electing CHBCPT trustees, and as a result Centralines avoids the administrative cost and complexity of price-quality regulation. It also allows Centralines to be more responsive to the needs of the community and its customers.
- The trust has significantly lower average trustee fees per trustee than other energy trusts, however Trust expenses are relatively high per customer, because Centralines is a small network relative to the other energy trust owned networks
- Significant dividends were paid to the Trust by Centralines in FY19 and FY21 which were distributed to consumer beneficiaries.
- Each year the Trust issues a letter of expectations to the Board of Directors of Centralines outlining the Trust's expectations of the Company, which are in turn reflected in the Statement of Corporate Intent (SCI). The current SCI reflects a focus on growth and delivering benefits to consumers through charitable contributions, dividends, discounts and reliability of power supply.
- CHBCPT's trustees have a good understanding of Centralines' operations and are involved with the national energy trusts organisation. The Trust also appoints the Directors of the Company and monitors the performance of the Director group.

Centralines

Centralines manages and operates the distribution network supplying electricity to consumers across the Central Hawke's Bay region. Neighbouring lines company, Unison Networks Limited (Unison Networks) provides network management services to Centralines. This gives access to the scale benefits, capabilities and technical expertise of a larger network company.

Centralines' performance highlights

- Centralines has seen strong growth in its network with the number of customer connections growing by a total of 5% over the review period
- Centralines' financial performance has been strong with EBITDA ranging from \$6.6m in FY19 to \$5.1m in FY23
- Total line charge discounts to consumers over the review period were \$7.8m, and total dividends were \$4.1m
- Centralines increased its asset base by 29.4% between FY19 and FY23, reflecting capital investment in its network including the new depot located in Waipukurau
- The depot was partly debt funded and in FY23 Centralines had a leverage ratio of 14%, well below the Commerce Commission's industry benchmark of 42%
- Centralines achieved, or was within 10% of, approximately 80% of its performance targets over the review period
- Centralines has supported the Central Hawke's Bay community through annual grant funding for local organisations
- Centralines has improved network reliability, reflecting \$10.2m invested in asset replacement and renewals over the review period
- Centralines staff were effective in restoring power to its customers following the significant Cyclone Gabrielle event in February 2023.

Executive summary

Centralines' comparative performance

- Centralines' return on investment (ROI) comparable to a vanilla weighted average cost of capital (WACC) was well above the industry and peer group averages in FY19 and FY20, but reduced and aligned with the comparable data in FY21 when the regulatory revenue cap was reset
- The adjusted ROI measure deducts discretionary discounts and rebates, and adjusts for the tax effect of these. The industry average adjusted ROI was 4.2% in FY22 which is the same as the peer group average. Centralines' adjusted ROI (5.8% in FY22) has been above the industry and peer group averages since FY19
- Centralines' average unit revenues after discounts for electricity network services have been above the industry average and the peer group average throughout the review period. Higher prices are not unexpected given the network's relatively low demand density and volume density, as Centralines has to recover the costs of operating its network over lower demand and consumption levels
- Despite its small number of connections, Centralines' network and non-network opex per ICP is below its peer group average and only marginally higher than the industry average. This reflects Centralines management agreement with Unison Networks that helps keep opex low and allows Centralines access to the economies of scale achieved by a larger network
- Centralines average network capex per ICP between FY19 and FY22 was below the peer group average but above the industry average
- Centralines customer connection expenditure was significantly higher as a proportion of total capex than both the peer group average and industry average reflecting, the high levels of growth in the region. Other EDBs spent more capex on asset renewals and growth projects than Centralines.

Figure 1: Adjusted ROI

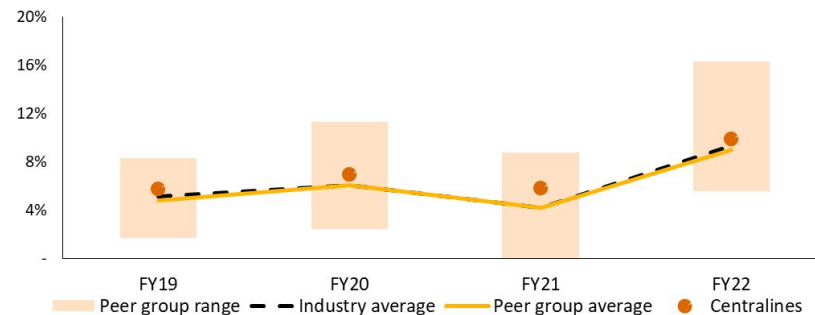
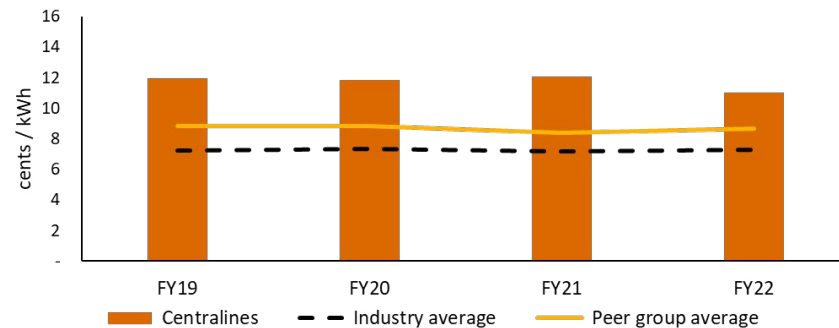


Figure 2: Distribution prices less discretionary discounts (c/kWh)



Executive summary

Ownership options assessment

Consistent with the Trust Deed, we have considered:

- the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to Centralines' consumers, and
- other ownership options including an asset distribution to consumers, sale of shares and other assets to the public or institutional investors, and a merger or joint venture with another electricity distribution company, compared with retention of ownership by the Trust.

To assess ownership options, we have developed evaluation criteria which reflect the objectives for the Company agreed with the Trust. These support the following outcomes:

- operating a successful electricity network business
- growing through opportunities adjacent to the core business with a Central Hawke's Bay focus.

Our analysis also considers the demands of the energy transition on Centralines, as it is important that the ownership structure supports Centralines in meeting its obligations to help to deliver on New Zealand's transition to a low carbon future.

Conclusion

The Trust structure has served Centralines and the Central Hawke's Bay community well to date, deviating commendable financial and non-financial performance in core network operations. Although a small, low density network, Centralines network management arrangement with Unison Networks provides significant capability and scale advantages which flow through to consumers through network service levels and prudent management of the network assets for future generations.

The Trust and the Company have continued to make substantial financial contributions to consumers through distributions and line charge discounts, and provide targeted financial support for local community organisations.

Current gearing levels are low, indicating that the Company has sufficient borrowing headroom to meet the increased network investment required to meet growing demand and maintain network performance to respond to the energy transition, and potentially also to fund growth opportunities.

The Company can be expected to continue to perform well assuming the Trust:

- maintains clear expectations for the Company which promote a strong network and balance financial and non-financial considerations
- affords the Company flexibility to pursue new opportunities within the guidelines agreed through the SCI process
- encourages initiatives and business ventures which give the Company access to economies of scale as well as technical and operational expertise and capabilities, including maintaining the Unison Networks' management agreement, or a similar arrangement.

Drivers for a change in ownership may include:

- where investment opportunities exist but borrowing constraints have been reached; or
- where there has been an erosion of core business prospects.

Under these circumstances, the Trust may wish to sell or distribute part or all of its shareholding, or merge or enter into a joint venture with another electricity network company to maximise shareholder value or to allow the Company to access new capital and/or expertise.

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Centralines' performance

Network overview

Centralines operates a small electricity network which services Waipukurau and the surrounding rural region

Overview of Centralines

Centralines manages and operates the distribution network supplying electricity to consumers across the Central Hawke's Bay region. Neighbouring lines company, Unison Networks, provides network management services to Centralines.

Centralines' network is approximately 1,864 km in length and serves just over 9,200 connections, making it one of the smallest electricity networks in New Zealand. The network has more than \$81 million worth of assets predominately constructed on rural and rugged terrain, with only a small portion of the network located within urban areas. This is reflected in Centralines' low connection point density of 4.9 ICPs (inter connection point) per kilometre (km).

Centralines has seen strong growth in its network over the review period with the number of connections growing by a compounding average growth rate (CAGR) of 1.67% over the review period. Peak demand and installed capacity have also grown, however the volume of energy delivered to customers across the network has declined. This reflects the energy use patterns of the customers connected to the network, noting that Centralines has few high energy intensity customers.

The significant growth in fixed asset value reflects expenditure on improving the network, and the new depot building.

Table 1: Network characteristics (FY23)

Number of connections (ICPs)	9,212
Electricity delivered (GWh)	107.8
Energy intensity (MWh/ICP)	11.7
Transformer capacity (MVA)	118
Maximum coincident peak demand (MW)	22
Circuit length (km)	1,864
Fixed assets (\$m)	86.0

Table 2: Network characteristics compounding annual growth rate (FY19-FY23)

Number of connections (ICPs)	1.67%
Electricity delivered (GWh)	-0.21%
Energy intensity (MWh/ICP)	-1.86%
Transformer capacity (MVA)	2.00%
Maximum coincident peak demand (MW)	1.17%
Circuit length (km)	-0.14%
Fixed assets (\$)	9.07%

Centralines' financial performance

Centralines delivered a strong financial performance over the review period, including providing both line charge discounts and periodic dividend payments for the benefit of consumers

Centralines' financial performance has been strong over the review period, with EBITDA ranging from \$6.6m in FY19 to \$5.1m in FY23. A statement of financial performance is shown overleaf.

Inflationary pressures have increased operating costs over the review period, along with increased activity in the business to respond to growth in new connections, the impact of major storm events, and the new depot in Waipukurau. This increase in operating expenditure was however partially offset by a decrease in Transpower costs and growth in customer connection revenues.

Centralines' contract fees with Unison Networks increased at a CAGR of 4.8% over the period. The contract provides for executive, financial and technical management services for Centralines.

Administrative expenses other than the Unison Networks contract include audit fees, salaries, Directors' fees and other indirect expenses. The majority of the cost increases over the review period can be attributed to increased employee costs.

As Centralines became exempt from the Commerce Commission's revenue cap regulation from FY22, the Company had more freedom to set its line charge discounts based on its annual financial performance. As a result, discounts increased in FY22 when operating margin improved, and reduced again in FY23 when cost increases reduced the operating margin.

Total discounts over the review period were \$7.8m, and total dividends were \$4.1m.

Figure 3: Centralines' EBITDA and NPAT (post discount) (\$m)

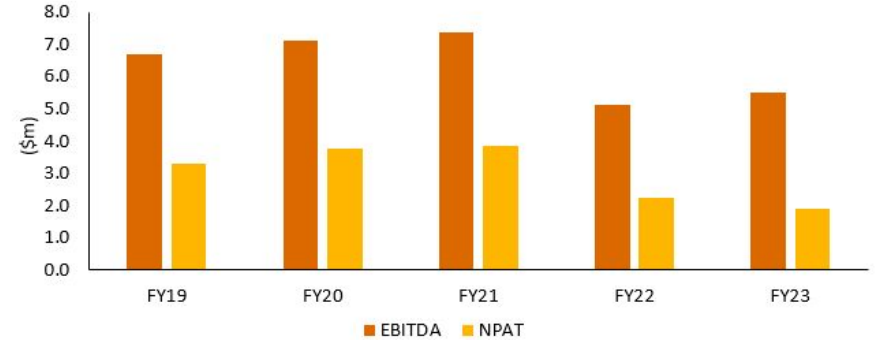


Figure 4: Centralines' discounts and dividends



Centralines' financial performance

Table 3: Centralines' financial performance

\$m	FY19	FY20	FY21	FY22	FY23
Line revenue	14.4	14.6	15.0	14.2	13.6
Transmission charges	(2.9)	(2.9)	(2.6)	(2.7)	(2.7)
Operating expenditure	(2.1)	(2.1)	(2.4)	(3.0)	(3.3)
Gross margin	9.5	9.7	10.1	8.7	7.8
<i>Margin %</i>	65%	66%	67%	61%	57%
Administrative expenses	(1.6)	(1.7)	(1.9)	(1.9)	(2.0)
Discounts	(1.4)	(1.4)	(1.6)	(2.2)	(1.3)
Other expenses	(0.7)	(0.7)	(1.0)	(0.8)	(1.1)
EBITDA	6.7	7.1	7.4	5.1	5.5
<i>Margin %</i>	46%	48%	49%	36%	40%
Depreciation	(2.1)	(1.9)	(2.0)	(2.0)	(2.4)
EBIT	4.6	5.2	5.4	3.1	3.1
<i>Margin %</i>	31%	35%	35%	21%	23%
Interest costs	-	-	-	-	(0.4)
<i>Margin %</i>	31%	35%	35%	21%	20%
Tax	(1.3)	(1.4)	(1.5)	(0.9)	(0.9)
NPAT	3.3	3.8	3.9	2.2	1.9
<i>Margin %</i>	23%	26%	26%	15%	14%

Centralines' financial position

Centralines' financial position reflects the investment in the network business which has occurred over the review period

Financial position

Centralines has increased its asset base by 29.4% between FY19 and FY23, reflecting capital investment in its network including the new depot located in Waipukurau. A statement of financial position is shown overleaf.

Net assets have not increased at the same rate, as Centralines used debt to partly fund the investments undertaken in FY22 and FY23. Consistent with this funding requirement, cash balances reduced from \$7.6m in FY19 to \$1.1m in FY23. Cash was also used to fund the significant \$3.8m dividend payout in FY22.

Despite the increase in debt, Centralines has increased its equity by 13.9% over the review period, increasing value for CHBCPT. As at the end of FY23 Centralines had a leverage ratio of 14%, well below the Commerce Commission's industry benchmark of 42% as illustrated opposite.

Over the review period Centralines' inventory increased from \$0.4m to \$1.3m, reflecting the increased activity on the network and mitigation against the supply chain constraints which arose following the Covid-19 pandemic.

Figure 5: Centralines' balance sheet ratios

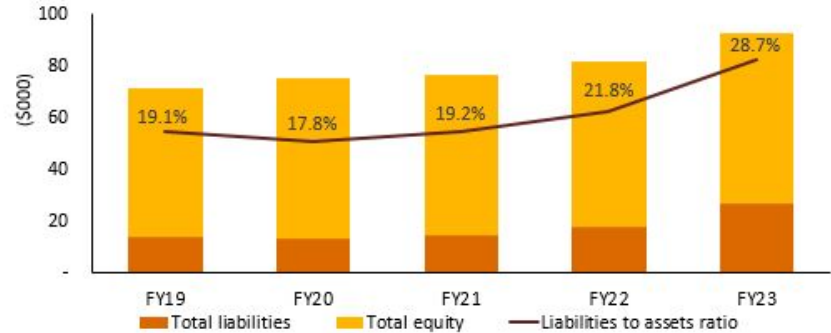
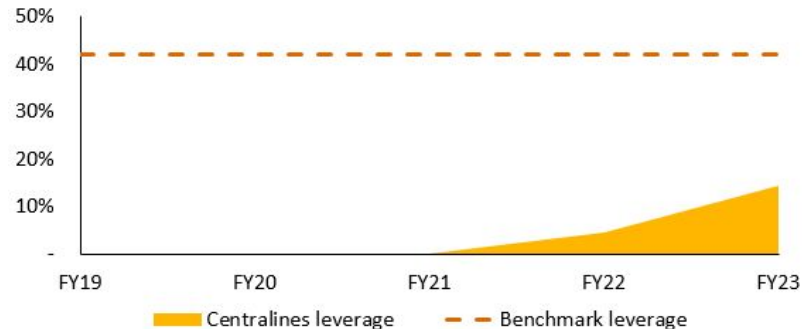


Figure 6: Leverage ratio



Centralines' financial position

Table 4: Centralines' financial position

\$m	2019	2020	2021	2022	2023
Cash and investments	7.6	8.4	6.0	0.8	1.1
Accounts receivable	1.9	2.0	1.7	1.5	1.8
Tax refund	0.2	-	-	-	-
Stock	0.4	0.4	0.6	0.9	1.3
Current assets	10.1	10.8	8.3	3.2	4.2
Property, plant & equipment	60.8	63.2	65.0	66.7	86.0
Intangibles	0.1	0.1	0.1	0.1	0.3
Work in progress	0.5	0.8	3.0	11.6	1.9
Non-current assets	61.3	64.2	68.1	78.4	88.2
Total assets	71.4	75.0	76.4	81.6	92.4
Accounts payable	2.4	1.5	2.3	2.7	2.3
Other current liabilities	1.7	2.1	2.1	1.3	2.0
Current liabilities	4.1	3.6	4.4	4.0	4.3
Deferred tax	9.4	9.7	10.2	10.7	11.2
Term loan	-	-	-	3.0	11.0
Other non-current liabilities	0.0	0.0	0.0	0.0	0.1
Non-current liabilities	9.5	9.7	10.3	13.8	22.3
Total liabilities	13.6	13.3	14.6	17.8	26.6
Net assets	57.8	61.7	61.8	63.8	65.9
Total equity	57.8	61.7	61.8	63.8	65.9

Network revenue, pricing and returns

Centralines has reduced average lines charges over the review period, and regulatory profit has increased

Prices

From FY19 to FY21, Centralines was subject to revenue cap regulation administered by the Commerce Commission. Due to changes to the Trust Deed, Centralines became exempt from the revenue cap from FY22. As a result, from FY22, Centralines has had more discretion in setting annual line charges.

Line charges reflect transmission charges associated with transporting electricity to the Centralines network, and distribution charges associated with transporting electricity to the homes and businesses located on the network. Centralines has also included a customer discount in its line charges in each year of the review period. These components of annual average unit line charges are illustrated opposite.

Average prices reduced in FY21, due to a reduction in the regulated revenue cap, and again in FY22 when Centralines increased the discount. The discount was reduced in FY23, and accordingly average unit line charges increased in that year, but remain below the average unit line charge at the beginning of the review period.

Return on investment

The revenue cap includes a target return allowance based on an industry wide target WACC determined by the Commerce Commission. The WACC was revised down significantly from 7.19% to 4.57% from FY21, as illustrated opposite.

Profitability is measured by an ROI metric which reports annual regulatory profit as a percentage of the regulatory asset base (RAB). All EDB ROIs including Centralines increased significantly in FY22 and remained high in FY23 due to an inflation adjustment to regulated assets and income which is included in the ROI metric.

Figure 7: Weighted average unit line charge (cents/kWh)

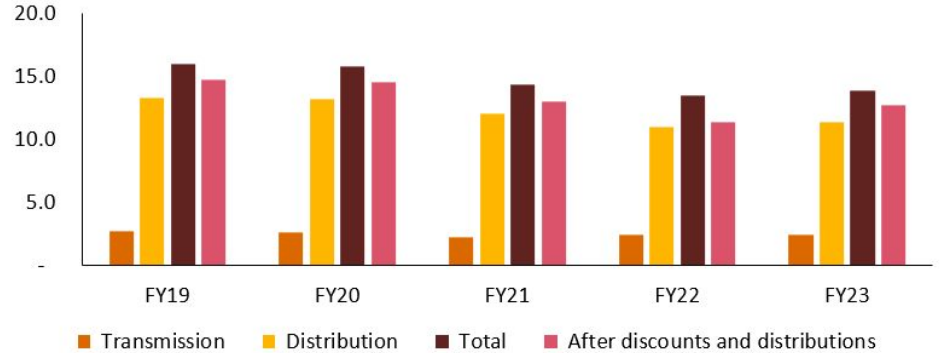
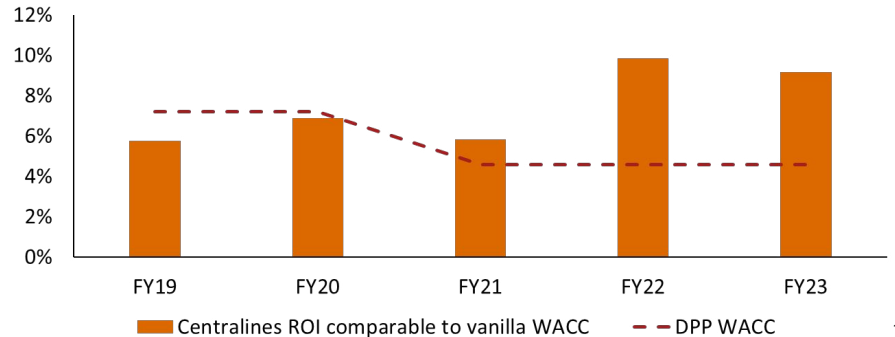


Figure 8: Centralines ROI and regulatory WACC



Regulatory asset base

Centralines' RAB has grown significantly over the review period

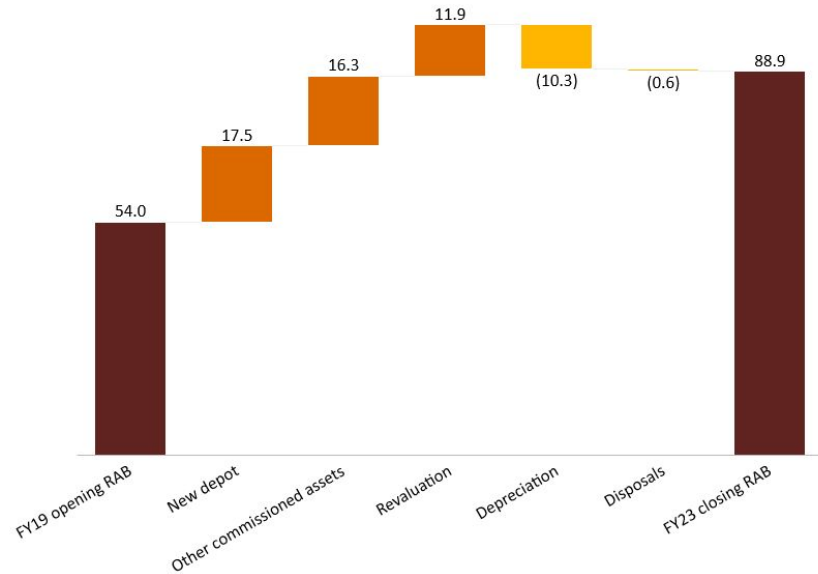
Regulatory asset base (RAB)

Centralines' RAB has increased in value by 24% over the review period. Major contributors to RAB growth are:

- commissioning the new depot
- investment in the distribution network
- annual CPI revaluations of the RAB.

The average remaining asset life has also increased, reflecting asset investments made over the period, including life extending maintenance of the core overhead network. The FY23 weighted average remaining asset life of 30 years is relatively high when compared to other EDBs, which suggests the network has significant service potential for the future.

Figure 9: RAB growth FY19 - FY23



Performance against SCI targets

Centralines achieved, or was within 10% of approximately 80% of its performance targets over the review period

SCI target performance

Centralines' annual SCI outlines the Company's performance targets for each year. Centralines achieved, or was within 10% of approximately 80% of, its performance targets over the review period.

The Company showed strong financial performance between FY19 and FY21, but missed all financial targets in FY22 and FY23. The performance in FY22 was within 10% of the targets. We understand missed targets reflected unexpected operating costs including in responding to Cyclone Gabrielle.

The timing of the dividend payments did not always fall within the financial year as planned, hence in some years the dividend targets were missed.

Centralines missed its target of zero lost time injuries by having one injury in each year of the review period. Centralines has continued to develop a risk management strategy over the review period to ensure high health and safety standards are maintained and incident numbers are low.

Centralines was better than, or within 10% of, the reliability targets for most of the FY19 and FY23 period. The Company's System Average Interruption Duration Index (SAIDI) target was not met in FY23 due to major events impacting faults including Cyclone Gabrielle.

Table 5: Performance against SCI targets

	FY19	FY20	FY21	FY22	FY23
Financial performance					
EBITDA (excluding discounts) (\$millions)	●	●	●	●	●
EBITDA as a percentage of average assets employed (%)	●	●	●	●	●
NPAT as a percentage of average shareholders' funds	●	●	●	●	●
Network operational costs - per ICP (\$)	●	●	●	●	●
Network operational costs - per kilometre of line (\$)	●	●	●	●	●
Total planned electrical network capital expenditure (\$millions)	●	●	●	●	●
Dividend to the Trust (\$millions)	NA	●	●	●	●
Discount paid in year (\$million)	NA	●	●	●	●
Health and safety					
Number of lost time injuries	●	●	●	●	●
Reliability measures					
SAIDI - system average interruption duration index - total	●	●	●	●	●
SAIFI - system average interruption frequency index	●	●	●	●	●
Number of major (33kV) faults, per 100 kilometres of line	●	●	●	●	●

Key:

- Better than target
- Within 10% of Target
- Does not meet target

Other performance highlights

Centralines has continued to invest in capability, facilitated by the network management arrangement with Unison Networks, and has supported community initiatives

Workforce

The electricity industry is facing significant shortages of skilled workers. Over the review period, Centralines implemented an integrated workforce strategy with four focus areas:

1. offering training pathways and careers for local people
2. attracting skilled workers to the region, making it easy to relocate and settle in Central Hawke's Bay
3. investing in people through training, equipment and facilities, including a new office and depot
4. providing clear pathways and opportunities for staff to develop skills and build their careers in the industry.

When the Eastern Institute of Technology was damaged during Cyclone Gabrielle, Centralines also took the opportunity to accommodate trainees from across the North Island which may encourage new talent into the region.

Community hub

In FY22 the Centralines team moved into a new, fit for purpose depot and office. This is also a facility for community events, able to accommodate both small and larger groups. A number of community events have already been held in the facility.

Electric vehicle charging infrastructure and a solar array is also incorporated into the depot site. The solar array met 40% of Centralines' own electricity needs in FY23, and generated 61,540 kWhs for use by consumers.

Community sponsorship

In addition to providing discounts to consumers and dividends, Centralines supports the Central Hawke's Bay community through grant funding for local organisations. In FY23, Centralines' policy was to make up to \$200,000 available to support community activities. This is an increase from the \$150,000 target at the start of the review period.

Network management agreement

An important feature of Centralines' performance is the network management agreement with neighbouring EDB, Unison Networks. This arrangement has been in place for 21 years and has provided Centralines with access to scale benefits, best practice capability and the technical expertise of a larger network company.

Guided by Unison Networks' asset management practices and systems, Centralines has focus on improving the performance and resilience of the overhead network, including pole stress testing and cross arm replacements - there are now no wooden poles remaining on the network. The agreement has also enabled Centralines to focus on technology innovations such as the increased uptake of solar and electric vehicles.

Without access to Unison's capability, Centralines would need to invest considerably in its own resources and/or find another management partner.

Jaun Park was also appointed as the new CEO of Centralines during the review period.

Other performance highlights

Centralines' network has continued to perform well and the Company has now established a more deliberate growth strategy

Network reliability

Over the review period Centralines has been committed to investing in its network to improve reliability, and meet the electricity needs of Central Hawke's Bay power consumers and support the ongoing growth of the region. This is reflected in Centralines' \$10.2m of asset replacement and renewals over the review period. Delivery of the annual works plan has also improved over the review period due to multiple contractors now working on the network.

Improved reliability in the network is also evident by reductions in both SAIDI and SAIFI (System Average Interruption Frequency Index) targets between FY19 and FY23. SAIDI reduced from 119.1 to 62.83 (47%) whilst SAIFI reduced from 3.52 to 3.16 (10%).

Despite more aggressive targets, Centralines was also able to achieve, or was within 10% of its interruption duration and interruption frequency targets from FY19-FY22. FY23 performance was impacted by multiple major weather events.

Cyclone Gabrielle

Cyclone Gabrielle struck the Centralines network in mid February 2023, causing significant disruption to approximately 5,600 customers. Centralines staff worked to progressively restore electricity supply to the region through temporary remediation work, and temporary reconfiguration of the network. Despite the extremely challenging working environment, Centralines was able to quickly and safely restore power to its customers.

Growth

Over the review period Centralines has continued to invest in its network to ensure a reliable network that meets the needs of the community and supports the ongoing growth in the region. Centralines SCI outlines the Company's intent to explore growth opportunities that benefit the Central Hawke's Bay region consistent with the investment policy, as follows:

- supporting generation assets or transmission augmentation assets with a preference that these be regionally based
- supporting regional infrastructure that supports economic growth within Central Hawke's Bay.

4

Benchmarking
Centralines' electricity
network business
performance

Benchmarking Centralines' electricity network business

Centralines is one of the smallest electricity networks in New Zealand and has low network density

Centralines and its peer group

Centralines' relative performance has been evaluated against other EDBs, using regulatory disclosure information for the period FY19 to FY22. This benchmarking covers the regulated electricity network business activities of Centralines.

When comparing the performance of EDBs in New Zealand, it is appropriate to group networks using the following indicators:

- total size of the network (the total number of customer connections (ICPs) to the network)
- network density (the ratio of customer connections per circuit kilometre).

We have therefore placed Centralines in a group with comparable network businesses including Buller Electricity, EA Networks, Firstlight Network, Network Waitaki, Otago Joint Venture, Scanpower and Westpower. We have also compared Centralines to the industry average. Profits, price, expenditure levels and network reliability have been considered in our relative performance assessment.

As illustrated opposite, Centralines is smaller than the peer group average and much smaller than the industry average, based on the number of connections (ICPs) to the network.

Centralines also has slightly lower customer density (ICPs per km) than the peer group average and again much less than the industry average. This reflects the rural and remote rural communities which Centralines serves.

Figure 10: EDB ICPs (FY22)

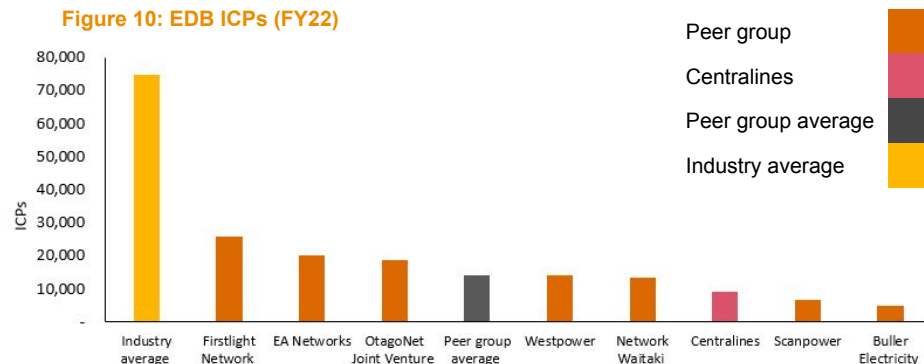
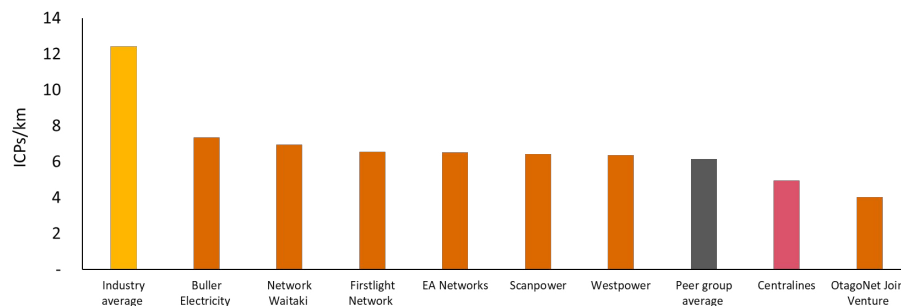


Figure 11: EBD network density (FY22)



Network characteristics

Centralines' network is predominantly overhead lines located in rural, remote and rugged terrain, and its demand density and volume density are the lowest of all EDBs

Peer group network characteristics

Figure 12 shows the composition of lines and cables which make up the distribution networks of Centralines and its peer group EDBs. In line with its peer group, Centralines has a high proportion of overhead lines located in rural, remote and rugged terrain. Firstlight Network and OtagoNet Joint Venture have significantly more rugged and remote network than the rest of the peer group.

Remote and rugged networks generally cost more to serve, and may experience longer outages due to the extra time taken to locate and restore faults. In contrast, underground networks which are typically located in high density urban areas are more reliable as they are not as exposed to extreme weather.

Figure 13 reflects Centralines' demand density (measured as maximum coincident system demand / total circuit length) and figure 14 reflects Centralines' volume density (measured as total energy delivered to ICPs / total circuit length). In FY22 Centralines had the lowest density scores in New Zealand on both measures.

This suggests Centralines' customers are dispersed and on average have low peak demand and low annual usage. This will be influenced by the local climate, access to other forms of energy such as wood fires or natural gas, and relatively low energy intensity businesses in the region, like farming.

Figure 12: Circuit length by type (FY22)

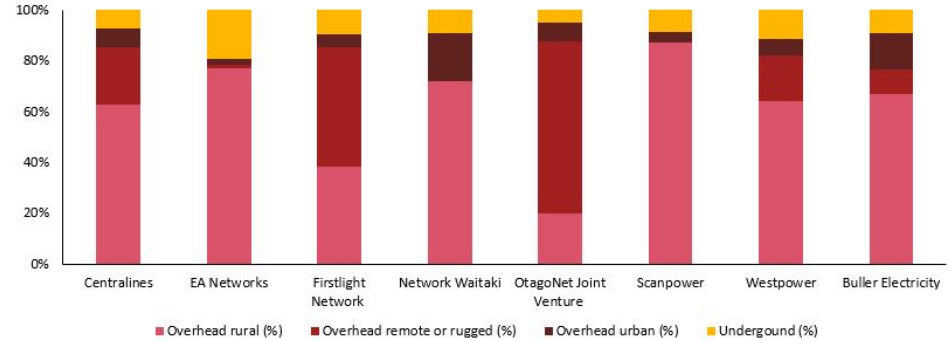


Figure 13: Demand density (FY22)

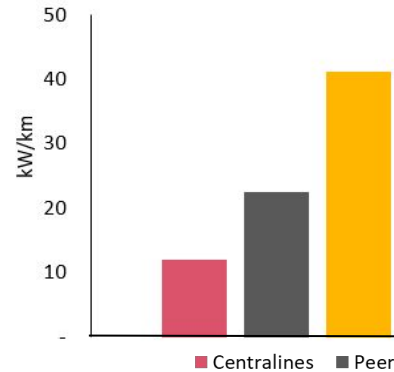
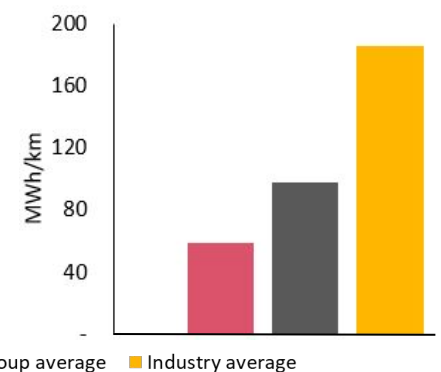


Figure 14: Volume density (FY22)



Comparative profitability

Centralines' ROI has exceeded the peer group and industry average over the review period

The most common indicator of profit within the electricity network sector is ROI. The 'ROI comparable to a vanilla WACC' measure is used by the Commerce Commission when setting regulated price caps.

Centralines' ROI was well above the industry and peer group averages in FY19 and FY20, but reduced and became aligned with the comparable data in FY21 when the revenue cap was reset.

The fluctuation in ROI performance across the review period partly reflects a volatile macroeconomic climate caused by Covid-19 and subsequent inflation. Higher inflation increases the ROI measure, and is particularly evident in FY22.

The industry average results are typically lower than the regulatory benchmark, as some networks choose to price below the regulatory target, particularly those which are exempt from price-quality regulation. Within Centralines peer group, four other EDBs are exempt from price-quality regulation.

Return on investment

The adjusted ROI measure deducts discretionary discounts and rebates from returns, and adjusts for the tax effect of these. The industry average adjusted ROI was 4.2% in FY22 which is the same as the peer group average. Centralines' adjusted ROI (5.8% in FY22) has been above the industry and peer group averages since FY19.

Figure 15: ROI

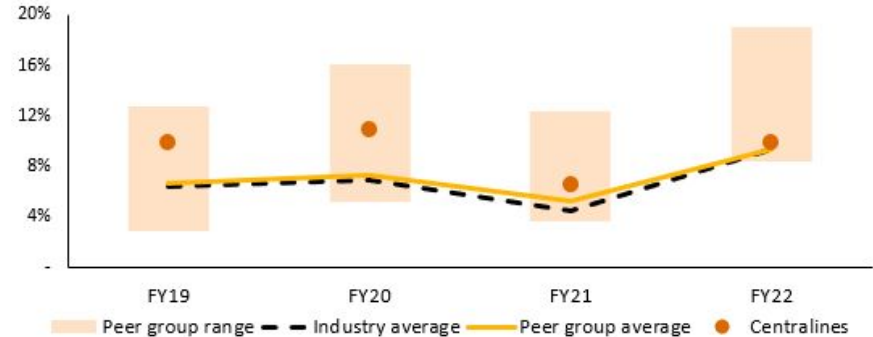
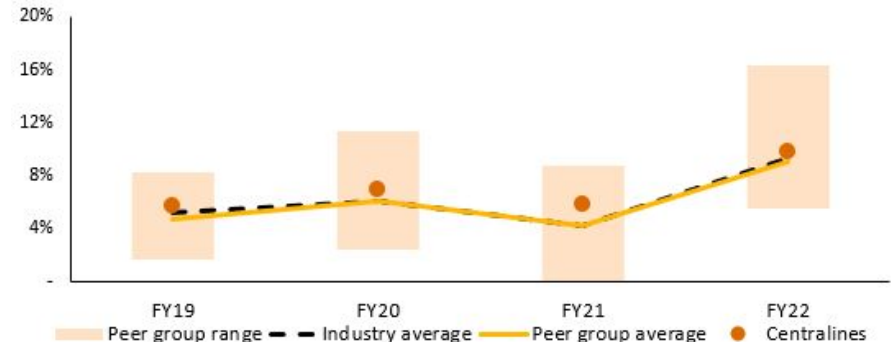


Figure 16: Adjusted ROI



Pricing

Centralines has higher average unit revenues than the peer group and industry averages reflecting the low connection, demand and volume densities on the network

Pricing

Average unit revenues are a useful benchmark for comparing electricity network prices. However, this does not fully represent the different ways in which networks collect their revenue (eg through different combinations of fixed, capacity and volume charges) or the underlying demand characteristics of a network's customer base.

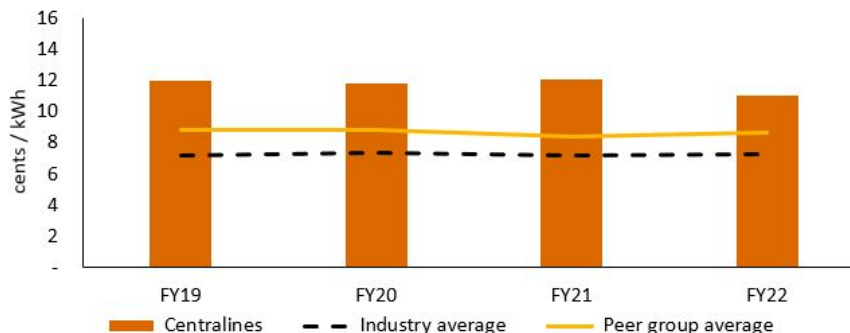
Centralines' average unit revenues after discounts for electricity network services have been above the industry average and the peer group average throughout the review period.

We note that this price information reflects the prices that Centralines charges, via retailers, for its services, not the full cost of electricity charged to consumers.

Centralines' distribution prices, after accounting for its line charge discounts, reflect the net prices that customers pay.

Higher prices are not unexpected given Centralines' low demand density and volume density, as Centralines has to recover the costs of operating its network over lower demand and consumption levels. Also, the lack of high energy intensity businesses in Central Hawke's Bay means that network costs fall mainly to small commercial businesses, the agriculture sector and households.

Figure 17: Average unit revenues after discounts (c/kWh)



Opex

Despite its relatively small size, Centralines' network and non-network opex ratios are less than the peer group average

Operating expenditure

As shown in figure 18 below, Centralines' opex per connection has increased between FY19 and FY22. This trend is broadly consistent with the peer group average over this period, reflecting a high inflationary environment.

Despite its small number of connections, Centralines' network and non-network opex per ICP is below its peer group average and only marginally higher than the industry average. This reflects Centralines' management agreement with Unison that helps keep opex low and allows Centralines access to the economies of scale achieved by a larger network.

As seen in figure 19, Centralines' maintenance opex reflects a higher proportion of asset replacement and renewal, reflecting the current asset management focus of the Company. Vegetation management is also significant for Centralines. Other EDBs have spent more on routine maintenance and inspection than Centralines.

Centralines' non-network opex largely reflects the costs of the network management agreement with Unison and therefore is weighted more towards business support costs than other EDBs who are responsible for their own network operations, such as running the control room and network planning.

Figure 18: Total opex per ICP

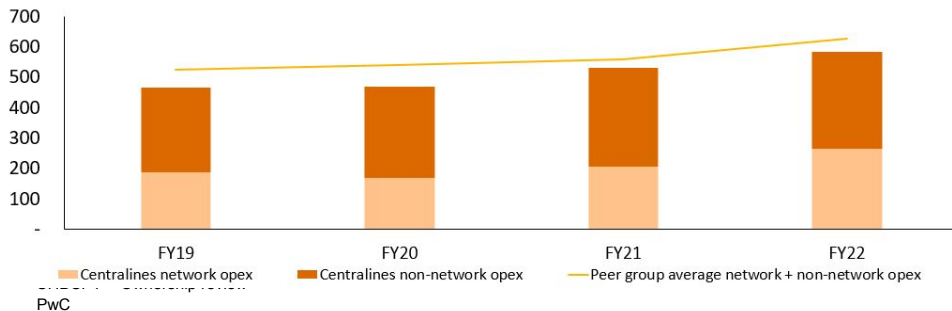


Figure 19: Average network opex per ICP for the review period

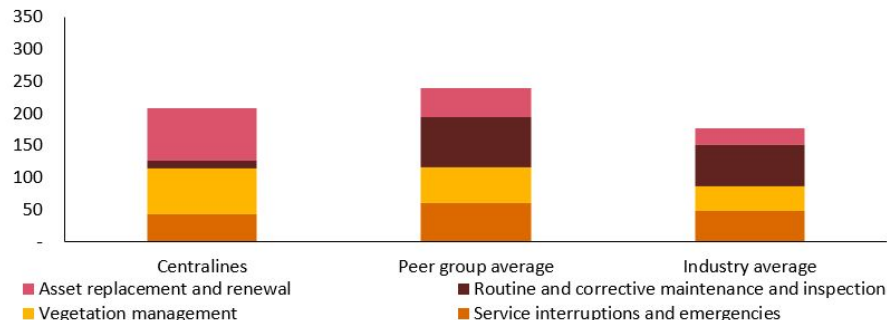
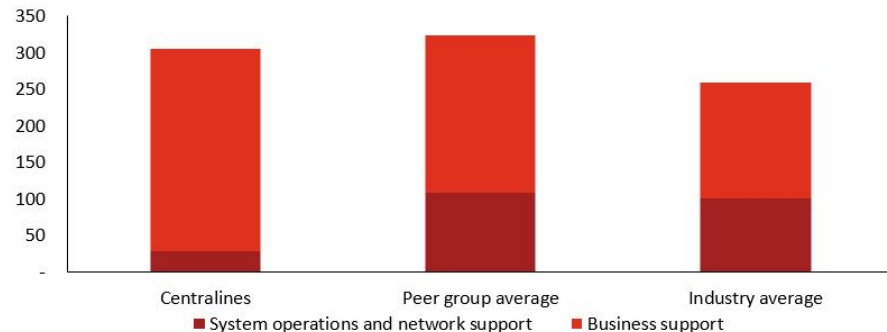


Figure 20: Average non-network opex per ICP for the review period



Capex

Centralines has made significant investment in customer connections, and is forecasting continued customer connection activity and elevated investment in system growth, reliability and asset renewals projects

Network capex

Centralines' average network capex per ICP between FY19 and FY22 was \$479/ICP. This was below the peer group average of \$514/ICP and the industry average of \$484/ICP.

The composition of Centralines' capex in FY22 is shown in figure 21. Centralines consumer connection expenditure was significantly higher as a proportion of total capex than both the peer group average and industry average, reflecting the high levels of growth in the region. Other EDBs spent more on asset replacement and renewals and growth projects than Centralines.

Given Centralines is a small network, there is variability in the amount of capex scheduled each year depending on the project mix, as illustrated in figure 22.

The higher asset replacement and renewal work in FY23 and FY24 reflects deferred work programmes from wet winter conditions, high levels of customer initiated works and Cyclone Gabrielle related replacement and renewal projects.

The significant system growth investment forecast for FY29 and FY30 relates to potential upgrades to Waipukurau 33kV lines, Waipawa GXP reinforcement and a zone substation at Waipawa. Additional capacity for the Waipukurau substation is also planned for FY24.

Figure 21: FY22 network capex composition

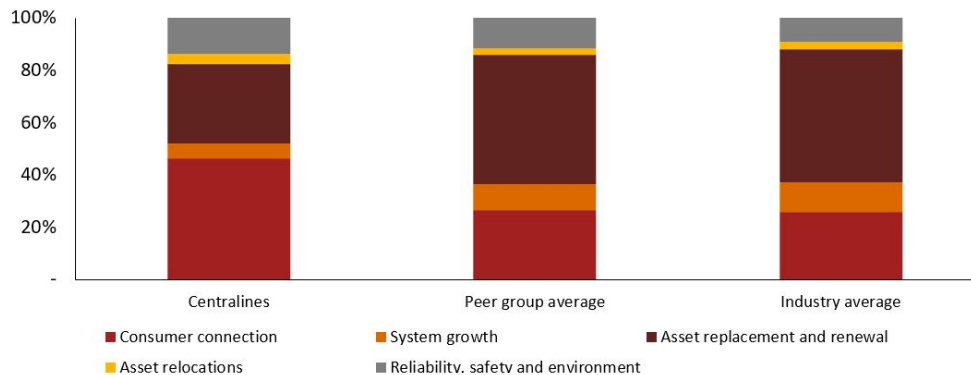
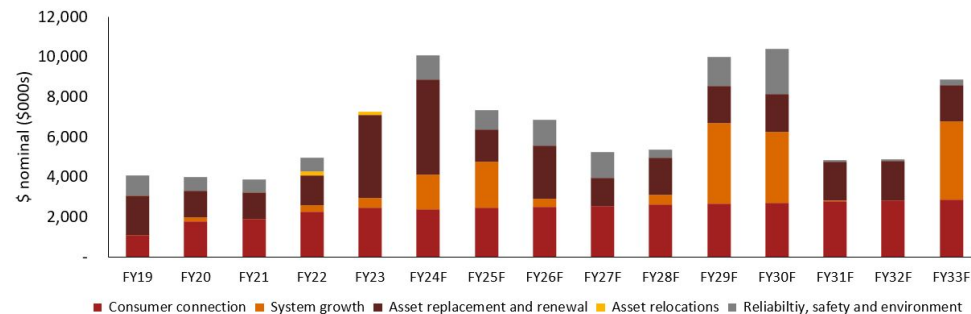


Figure 22: Network capital expenditure actuals and forecast



Reliability - interruption duration

Centralines' network interruption duration performance has been better than its peers over the review period

SAIDI

The figures show Centralines' comparable reliability performance, using the industry standard measure SAIDI. SAIDI measures the average duration, in minutes, of power outages on the network. Class B SAIDI reflects planned loss of supply, while Class C SAIDI reflects unplanned outages. This data can be normalised for the impact of extreme events, which assists with comparisons between EDBs and overtime, as seen in figure 23.

Centralines' planned SAIDI has been in line with the the industry and peer group averages between FY19 ad FY22. However, unplanned SAIDI has been lower, which means the network has been more reliable as shown in figure 25.

When planned and unplanned SAIDI are combined and the impact of extreme events is removed, Centralines performs well relative to its peers, as illustrated in figure 23.

Figure 23: Normalised SAIDI (Class B and C)

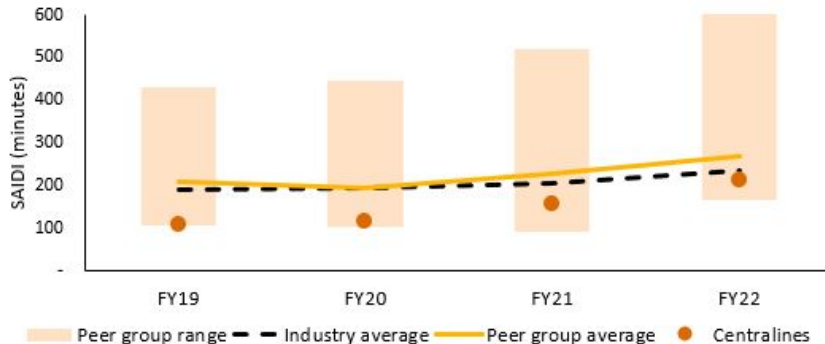


Figure 24: SAIDI - Class B (Planned)

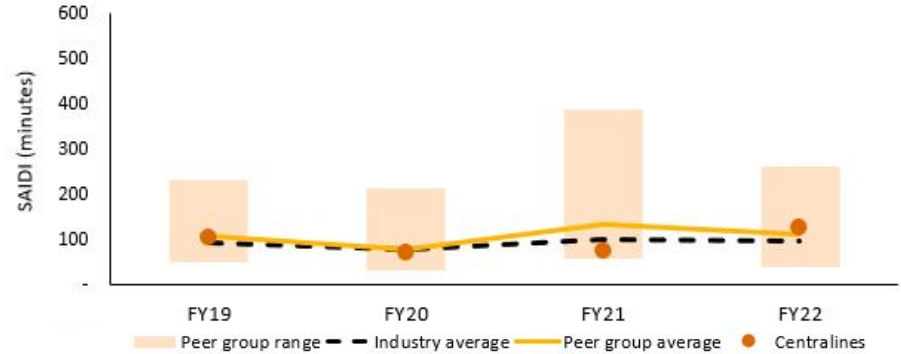
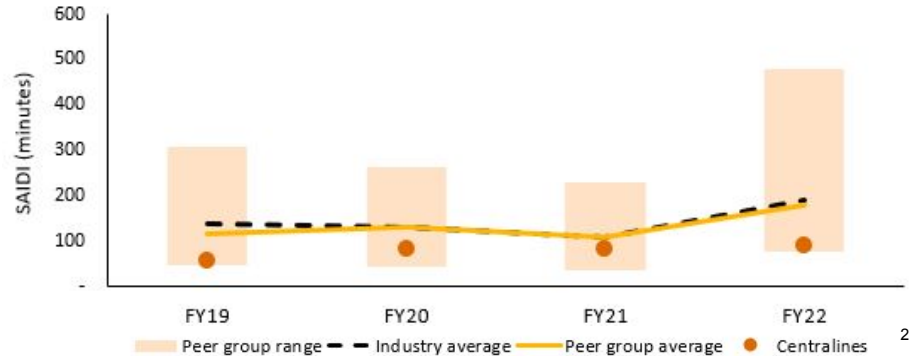


Figure 25: SAIDI - Class C (Unplanned)



Reliability - interruption frequency

Centralines' interruption frequency performance is consistent with the peer group and industry averages

SAIFI

The figures below show Centralines' comparable reliability performance, using the industry standard measure SAIFI. SAIFI measures the average frequency of power outages on the network. Class B reflects planned outages and Class C reflects unplanned outages. Similar to SAIDI, this data is normalised for the impact of extreme events, as illustrated in figure 26.

Centralines' normalised SAIFI was in line with both the peer group and the industry average between FY19-FY22. This trend is consistent for both planned and unplanned outages in most years.

Figure 26: Normalised SAIFI



Figure 27: SAIFI - Class B (Planned)

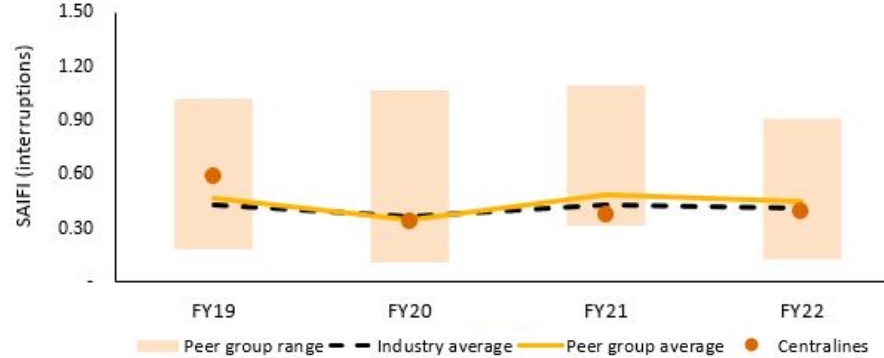
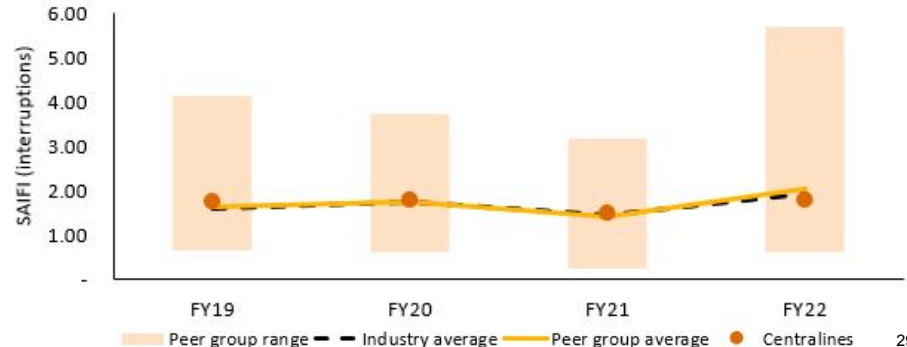


Figure 28: SAIFI - Class C (Unplanned)



5

Central Hawkes Bay
Consumers' Trust
Performance

Trust overview

The primary objective of the Trust is to hold the shares in Centralines on behalf of consumer beneficiaries, subject to the provisions of the Trust Deed and the outcome of periodic ownership reviews

CHBCPT

CHBCPT was established in 1993 to be the sole shareholder in CHB Power Holdings Limited (CHB Power), an electricity distribution and retailing business based in the Central Hawke's Bay region.

As a result of the changes introduced by the Electricity Reform Act 1998, CHB Power was prohibited from owning both retailing and distribution businesses, and in November 1998 CHB Power sold its retailing business. Subsequently, on 1 July 1999 CHB Power changed its name to Centralines Limited to better reflect the primary nature of its business as an electricity distributor.

Consumer trust is the sole shareholder of Centralines

The Trust holds the shares of Centralines on behalf of the beneficiaries of the Trust. In the Trust Deed, beneficiaries are defined as consumers, and in this report we use the terms beneficiaries and consumers interchangeably. Consumers are defined as persons:

- whose premises are directly connected to the Company's lines network within the region, and
- who are end customers liable for payment for electricity conveyed to them over those lines or for services in relation to those lines.

The primary objective of the Trust is to hold the shares on behalf of the consumers, subject to the provisions of the Trust Deed and the outcome of ownership reviews.

Changes to the Trust Deed

In October 2020, the High Court granted amendments to the Trust Deed following application by the CHBCPT trustees. The key change replaced the three appointed trustee roles with elected positions. CHBCPT consulted with interested parties, including the local mayor and councillors, and the local customer representatives who previously were able to appoint trustees.

This change allows Centralines to meet the requirements of section 54G of Part 4 of the Commerce Act 1986 for qualifying as a 'consumer owned' lines business. This change was necessary for Centralines to become exempt from price-quality regulation, which was given effect to in FY22 when Centralines no longer had to comply with revenue cap or network reliability standards set by the Commerce Commission.

The change in status means that consumers are fully responsible for electing the CHBCPT trustees and Centralines can avoid the administrative cost and complexity of price-quality regulation. It also allows Centralines to be more responsive to the needs of the community and its customers.

CHBCPT financial performance and position

The Trust's revenue reflects dividends received from Centralines

Financial performance and position

CHBCPT's revenue reflects dividends received from Centralines. Between FY19-FY20 and FY22-FY23, the Trust received minimal dividends from Centralines. A significant dividend of \$3.7m was paid in FY21, of which \$3.6m was distributed directly to beneficiaries in the same year. In FY19, a total distribution of \$7.8m was paid out to beneficiaries reflecting surpluses which had accrued over previous years.

In FY20 and FY22-FY23, the Trust did not make any distributions directly to beneficiaries. Instead, benefits to beneficiaries were passed on by Centralines in the form of consumer discounts.

In FY23, trustee fees made up 56% of the Trust's total expenditure. Other expenses primarily relate to administration expenses such as accountancy, audit and legal fees and trustee election costs.

Almost all of CHBCPT's total assets are comprised of its investment in the shares of Centralines. The Trust has no other significant assets, holding only minimal cash balances. The Trust has no debt and its only liabilities are short-term accounts payable.

Table 6: Statement of financial performance

\$m	FY19	FY20	FY21	FY22	FY23
Revenue	0.2	0.0	3.8	0.0	0.2
Trustee expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other expenses	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Net surplus	(0.0)	(0.1)	3.6	(0.1)	0.1
Distributions to beneficiaries	(7.8)	-	(3.6)	-	(0.0)
Surplus after distribution	(7.8)	(0.1)	0.0	(0.1)	0.1

Table 7: Statement of financial position

\$m	FY19	FY20	FY21	FY22	FY23
Current assets	0.4	0.2	0.3	0.3	0.3
Non-current assets	8.0	8.0	8.0	8.0	8.0
Total assets	8.4	8.2	8.3	8.3	8.3
Current liabilities	0.1	0.1	0.1	0.0	0.0
Net assets	8.2	8.1	8.2	8.2	8.3
Equity	8.2	8.1	8.2	8.2	8.3

Benchmarking CHBCPT's performance

We have benchmarked CHBCPT against other energy company trusts

Benchmark

To assess the performance of CHBCPT, we have benchmarked it against other selected energy trusts. The trusts selected for this benchmarking are not aligned to the EDBs used for the Centralines network benchmarking.

In order to provide meaningful data for the benchmarking of CHBCPT, we have included those energy trusts which disclose comparable information.

We note that there is significant variation between the trusts due to their individual circumstances and investment portfolios. In addition, the number of ICPs in the respective trusts' networks vary widely, with CHBCPT the smallest in the sample.

We have used the following ratios to benchmark the Trust's performance in FY22:

- Trustee fees per trustee
- Trustee fees per ICP
- Trust expenses per ICP
- Trust expenses as a percentage of total assets
- Distributions per ICP (including line charge discounts provided at the company level).

Our benchmarking observations are presented overleaf.

Table 8: CHBCPT FY22 comparative performance

Consumer trust	No. of ICPs	No. of trustees	Trustee fees per trustee	Trustee fees per ICP	Total expenses per ICP	Expenses/assets	Distributions per ICP
Central Hawkes Bay Power Consumer Trust	9,054	7	\$ 10,571	\$ 8.2	\$ 14.5	1.6%	\$ 139
West Coast Electric Power Trust	14,007	6	\$ 17,167	\$ 7.4	\$ 19.5	0.9%	\$ 213
Top Energy Consumer Trust	33,263	5	\$ 18,661	\$ 2.8	\$ 6.3	0.8%	\$ 215
Electra Trust	45,950	6	\$ 15,167	\$ 2.0	\$ 7.1	1.8%	\$ 111
Counties Power Consumer Trust	46,366	5	\$ 27,328	\$ 2.9	\$ 8.3	1.1%	\$ 234
Northpower Electric Power Trust	62,040	7	\$ 34,164	\$ 3.9	\$ 10.4	1.6%	\$ 189
WEL Energy Trust	96,894	6	\$ 35,000	\$ 2.2	\$ 14.0	0.9%	\$ 141
Entrust	593,440	6	\$ 59,761	\$ 0.6	\$ 7.8	1.2%	\$ 150
Average	127,423	6	\$ 29,607	\$ 3.1	\$ 10.5	1.2%	\$ 179

Source: Trust financial statements, PwC analysis

CHBCPT relative performance

CHBCPT trustee fees are lower per trustee but higher per customer than other energy company trusts

Assessment of CHBCPT performance

As demonstrated in the table on the previous page, CHBCPT has:

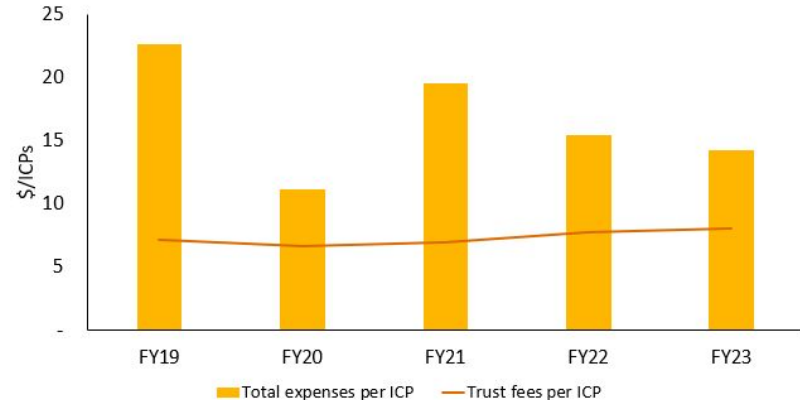
- significantly lower average trustee fees per trustee than the other energy trusts
- trustee fees per ICP which are relatively high reflecting the smaller consumer base and the slightly higher number of trustees on the Trust than average
- trust expenses which are relatively high per customer connection, because Centralines is a small network relative to most of the other trusts for which we have data
- lower distributions per ICP in FY22 than the average of the other trusts. We note that the business portfolios of some of the trusts include the core network business and other businesses such as generation, inter-regional electrical contracting, new energy solutions, gas and metering businesses. For these trusts, distributions reflect the surpluses generated from these additional businesses.

Trust expenses

Figure 29 below shows trustee fees and Trust expenses per ICP from FY19 to FY23 for CHBCPT.

Trustee fees have remained reasonably constant over the review period on a per ICP basis. Trust expenses have fluctuated on a per ICP basis, as expected, due to periodic ownership reviews, preparation for the High Court process required to change the Trust Deed in FY21, and subsequent trustee elections.

Figure 29: Trust expenses and trustee fees per ICP



Execution of duties under the Trust Deed

The Trust has achieved a significant change to the terms of the Trust Deed, replacing appointed trustees with elected trustees

Execution of duties

CHBCPT holds the shares in Centralines. The Trust Deed ensures that Centralines' consumers benefit from ownership of the Company under the current trust model, as set out in the Trust Deed.

The Trust is governed by seven trustees. Due to an approved variation to the Trust Deed by the High Court, all seven trustee positions are now elected by Central Hawke's Bay electricity consumers. The most recent election was in 2021.

CHBCPT's primary responsibility is to provide good stewardship of Centralines on behalf of consumers. Each year, the Trust issues a letter of expectations to the Board of Directors outlining the Trust's expectations of the Company. This letter of expectations is reflected in the SCI, which sets out the Company's targets and objectives. The current SCI reflects a focus on growth to help to deliver benefits to consumers through community grants, dividends, discounts and reliability of power supply.

The Board of Directors and trustees meet regularly throughout each year, including an annual strategy session prior to determining the SCI.

CHBCPT's trustees have a good understanding of Centralines' operations and are involved with the national energy trusts' organisation. There is a clear understanding of their role as consumer and shareholder representatives, the Board's governance role, and the role of management. The relationship between trustees is strong, and the trustees have a high degree of confidence in the governance and management of the Company.

Current trustees reflect a mix of people who are able to represent the consumer base, with a range of experience and tenure which brings diversity to the Trust's processes.

The Trust also appoints the Directors of the Company and monitors the performance of the Director group. A primary responsibility of the Trust is to appoint a quality Board. The current Board has an appropriate mix of commercial and industry experience and includes one local Board observer. The Directors also oversee the distribution of annual community grants and determine the annual value of line charge discounts for consumers.

Local trustees also act as advocates for consumer beneficiaries, who ensure the Company acts in the interests of current and future generations of consumers.



6

Analysis of ownership
options

Ownership options analysis

Our analysis considers how alternative ownership options might support the Company to meet its objectives

Evaluation of ownership options

In this section of the report, we present our analysis of:

- the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to Centralines' consumers
- other ownership options including:
 - asset distribution to consumers
 - sale of shares and other assets to the public or institutional investors
 - merger or joint venture with another electricity distribution company compared with retention of ownership by the Trust.

Evaluation approach

The 2023/24 SCI sets out the principle objectives of the Company, which are agreed with the Trust and reflect the Trust's letter of expectations. The most recent SCI covers the financial year commencing 1 April 2023 and the two succeeding financial years. In addition to the Company's vision, purpose statement and values, the SCI sets out:

- that the overarching objective for the Company is to operate as a successful business, consistent with the Energy Companies Act, 1992
- that the Company is involved in network services and electrical contracting services
- that all activities will be carried out with the objectives of protecting and growing shareholder value.

Our analysis considers how alternative ownership options support the Company to meet these objectives.

Centralines' SCI 2023/24

Vision

A collaborative partner that enables growth and delivers in the new energy economy

Purpose

To enable long-term prosperity for Central Hawke's Bay through dynamic energy and infrastructure solutions

Instrumental to the region's social and economic wellbeing, Centralines' approach is to ensure one of the country's most sparsely populated regions has access to sustainable, affordable and reliable electricity. We do this by applying excellence in asset management, smart network investment that builds in resilience, developing our people, and staying close to our customers and facilitating their energy choices and sustainability ambitions.

We have developed a view of the future that defines where – and in what role(s) – Centralines is going to play. These include investing in the core network and transmission, enabling generation in the region, supporting regional economic infrastructure development, and supporting customers with finding the right energy solutions to sustainably meet their needs.

Centralines will contribute to New Zealand's energy transition

In agreement with the Trust, Centralines strives to achieve operational excellence and growth through opportunities adjacent to the core business aligned to the energy transition

The energy transition

New Zealand's economy is driving increased electrification as energy users switch from carbon based fuels for household, transport and business needs, to electricity generated from renewable sources. This will require significant investment in renewable electricity generation, and transmission and distribution infrastructure over the next decade and beyond. Electricity distributors are critical to the energy transition because it is demand led. Therefore distribution network connection, capacity and resilience investments, as well as more complex network operating systems, will be needed to accommodate changes in energy use and additional demand.

There is increasing attention on the role, performance and capability of distributors, from government, regulators, customers and other sector stakeholders. A number of current consultations focus on the role and readiness of distributors to support New Zealand's energy transition.

Accordingly, Centralines' capability and capacity are more important than ever to support New Zealand's energy transition, in particular:

- access to capital to support investment in core business activity and to take advantage of opportunities for growth
- operational excellence to support the transition.

This environment is relevant to the ownership options analysis, as it is important that the ownership structure supports Centralines' in meeting its obligations to contribute to New Zealand's transition to a low carbon future.

Delivering good outcomes for Centralines' consumers and the Central Hawke's Bay community

The overarching SCI objective for the Company to operate as a successful electricity network and contracting business, and to protect and grow shareholder value, is embodied in the following commitments for the Company:

- ensure a positive health and safety culture which encourages compliance with the Health and Safety at Work Act 2015
- understand and meet customers' existing needs in terms of network reliability, resilience and security of supply, and meet customers' future needs in terms of fit for purpose solutions which are also cost effective and timely
- explore growth opportunities in energy and infrastructure that benefits Central Hawke's Bay consistent with the Company's investment policy including;
 - significant network investments to facilitate large customer connections
 - generation assets or transmission augmentation assets with a preference that these be regionally based
 - regional infrastructure that can support economic growth within Central Hawke's Bay, or
 - energy/efficiency related assets, for example Distributed Energy Resources (DER) or energy storage that have a direct nexus to Central Hawke's Bay electricity consumers.

These commitments are consistent with achieving **operational excellence in core business** operations, and **growth through opportunities adjacent to the core business with a Central Hawke's Bay focus**.

Ownership options evaluation criteria

We have evaluated the immediate and the medium to long term or intergenerational merits of alternative ownership options

Evaluation criteria

To assess ownership options, we have developed two overarching evaluation criteria, presented opposite. The criteria draw on insights from analysis into Centralines' vision, purpose and principal objectives as well as sector opportunities and challenges, as discussed in the preceding commentary. This is similar to the approach we applied in our 2017 assessment of ownership options, but updated for changes in industry circumstances, and the outlook and objectives of the Company.

The criteria are used to evaluate both the immediate, and the medium to long term (or intergenerational), merits of alternative ownership options.

1. Operate a successful electricity network business

In order to continue to operate a successful electricity network in the Central Hawke's Bay region and maintain and increase distributions available to consumers. Centralines will need to maintain high levels of customer service, strong network performance, invest to meet new demand, and adapt and innovate to ensure the energy transition is affordable for its customers.

2. Growth through opportunities adjacent to the core business with a Central Hawke's Bay focus

Centralines must engage successfully in the energy transition to create shareholder value and to meet changing customer needs. To do so, it needs the ability to respond proactively to market developments and pursue new opportunities.



Trust ownership

We assess the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to consumers

1. Operate a successful electricity network business

100% consumer trust ownership ensures the control of Centralines remains with current and future consumers located in Central Hawke's Bay. This means that the needs of consumers can be reflected in the objectives for the Company determined via the SCI process. As Centralines is now exempt from price-quality regulation, the Trust has a more important role to act as the consumers' advocate to ensure that the electricity network business performs well.

A critical feature of Centralines' network business is the management contract with Unison Networks. This significant arrangement provides Centralines with access to scale and expertise which is not readily available to smaller network companies. This will become even more critical as the energy sector transition progresses, electricity networks become more complex, and there is increased demand for reliable and resilient local electricity services. Without this arrangement, or a similar alternative, there is a risk that smaller Trust owned networks like Centralines will not be able to attract, retain and invest in the capability needed to deliver operational excellence in core network services.

Currently Centralines has adequate capital available to meet the investment needs of the core business, while generating distributions for consumer beneficiaries, through dividends and line charge discounts, and providing financial grants for community initiatives. Prudent financial management to date means that the Company is unlikely to become capital constrained in its core network business during the five year period until the next ownership review. One potential disadvantage of the Trust model is that shareholders are unable to provide additional sources of capital, and they may be reluctant to forego annual distributions, if funds are needed for capital investment.

Retaining 100% control with the Trust is also a simple model, with minimal administrative costs.

2. Growth through opportunities adjacent to the core business with a Central Hawke's Bay focus

100% trust ownership provides Centralines with flexibility to respond to new opportunities, subject to available capital and shareholder approval.

The Trust is currently encouraging Centralines to look for growth opportunities which are aligned to the core business and the Central Hawke's Bay region. This may present some challenges to Centralines because the Company is managed by Unison Networks who may have its own growth objectives to pursue. Appropriate local opportunities may also be limited.

However, with 100% Trust ownership, the Company can focus on Central Hawke's Bay and leverage the connections to the community and consumers to pursue growth opportunities.

One potential disadvantage is that the current ownership model does not necessarily provide access to expertise of other organisation or shareholders which may be useful in developing growth opportunities.

In addition, as mentioned opposite, access to capital to invest in new opportunities may be more constrained under Trust ownership than other ownership models. We note that this does not appear to be an issue for Centralines at present due to the low level of debt currently held by the Company.

Alternative ownership options

We have considered other ownership options including, asset distribution to consumers, sale of shares and other assets to the public or institutional investors, merger or joint venture with another electricity distribution company

Asset distribution to consumer beneficiaries

An alternative ownership option is for the shares in Centralines to be distributed to consumer beneficiaries. This would distribute the full value of the Company into the local community, with the benefits going to current consumers. Future consumers would miss out. In practice, many consumers would likely sell their shares to private or institutional investors and local control of the Company would be lost. This option would raise no capital as the value would accrue directly to consumers.

Sale of shares to the public or other investors

An alternative is to sell the shares in the Company to the public or other investors. These could include institutional investors, other EDBs or energy trusts. This option would raise capital, which the Trust is required to hold, and invest in government bonds or bank deposits, until it is distributed to beneficiaries. The Trust is unable to use the proceeds of a sale of shares for investments not related to Centralines or its subsidiaries. This is because CHBCPT is a consumer trust not a community trust.

Merger or joint venture with another electricity distribution company

A merger or joint venture with another EDB is an option which the Company could take up, with the Trust's approval. Under this option, the Trust's ownership is diluted, but some influence over the performance and objectives of the Company is retained. This option could be used to provide access to more scale and expertise or additional capital for growth and new business activities.

1. Operate a successful electricity network business

Under all of the alternative options analysed, the focus on customer outcomes may be diluted if consumers sell shares or if they are sold directly to external parties. The focus on Central Hawke's Bay needs may also be lost if shares are held by external parties. In addition, operational excellence may be impacted by a desire for financial returns from the new owners.

Centralines would cease to be exempt from price-quality regulation and the additional regulatory oversight would provide some protection for consumers, although this comes with some cost to the business. It may not be possible to retain annual line charge discounts under these alternative options, which are more likely to require the distribution of annual dividends where possible. Once local ownership is diluted or lost, local distributions to community would reduce materially or cease and dividends would flow to external owners.

A change in ownership could result in a change to the network management arrangement, which may leave Centralines in a vulnerable position during the transition. However, a merger or joint venture with another EDB may provide access to additional scale and expertise to improve operational performance and substitute for the current management agreement, if necessary.

2. Growth through opportunities adjacent to the core business with a Central Hawke's Bay focus

The major advantage of the alternative ownership options is access to additional capital and/or expertise which could provide growth opportunities not available to the Trust or the Company currently. However, it may be difficult to retain the focus on Central Hawke's Bay once local ownership is diluted or lost. Once the proceeds of a distribution or sale are distributed to consumer beneficiaries, the opportunity to invest in growth opportunities for the benefit of future generations of consumers and Central Hawke's Bay is lost.

Ownership options assessment

The Trust structure has served Centralines and Central Hawke's Bay well to date

The Trust structure has served Centralines and Central Hawke's Bay well to date, delivering commendable financial and non-financial performance in core network operations. Although a small, low density network, Centralines' network management arrangement with Unison Networks provides significant capability and scale advantages which flow through to consumers through good network service levels and prudent management of the network assets for future generations.

The Trust and the Company have continued to make substantial financial contributions to consumers through distributions and line charge discounts, while simultaneously providing financial support for local community organisations.

Current gearing levels are low, indicating that the Company has sufficient borrowing headroom to meet the increased investment required to meet growing demand and potentially also to fund growth opportunities which may arise from the energy transition.

Similar to our conclusion in 2017, the Company can be expected to continue to perform assuming that the Trust:

- maintains clear expectations for the Company which promote a strong network and balance between financial and non-financial considerations
- affords the Company flexibility to pursue new opportunities within the guidelines contained in the SCI
- encourages initiatives and business ventures which give the company access to economies of scale as well as technical and operational expertise and capabilities, including maintaining the Unison Networks' management agreement, or a similar arrangement.

Drivers for a change in ownership may include:

- where investment opportunities exist but borrowing constraints have been reached
- where there has been an erosion of core business prospects.

Under these circumstances, the Trust may wish to sell or distribute part or all of its shareholding, or merge or enter into a joint venture with another electricity network company, to maximise shareholder value or to allow the company to access new capital and/or expertise.

7

Appendix

Appendix

Information which we have relied on

- EDB Information Disclosures FY18-FY23
- Central Hawke's Bay Consumers Power Trust, Annual Reports FY18-FY23
- Central Hawke's Bay Consumers Power Trust, Deed of Trust
- Centralines Limited Annual Reports FY18-FY23
- Centralines Limited Regulatory Asset Management Plan 2023-2033
- Centralines Limited Statement of Corporate Intent FY18-FY23
- Centralines Management Accounts FY18-FY23

List of terms

Capital expenditure.....	Capex
Central Hawke's Bay Consumers Power Trust.....	CHBCPT, The Trust
Centralines Limited.....	Centralines
Compound average growth rate.....	CAGR
Earnings before interest, tax, depreciation and amortisation.....	EBITDA
Electricity Distribution Business.....	EDB
Financial Year.....	FY
Gigawatt hours.....	GWh
Installation Control Point.....	ICP
Kilovolt-amps.....	kVA
Kilowatt hour.....	kWh
Net profit after tax.....	NPAT
Net profit before tax.....	NPBT
Operating expenditure.....	Opex
Return on investment.....	ROI
Statement of Corporate Intent.....	SCI
System average interruption duration index.....	SAIDI
System average interruption frequency index.....	SAIFI
Weighted average cost of capital.....	WACC

A large center pivot irrigation system is visible on the left side of the image, extending into the distance. The system consists of a long metal structure supported by a series of towers, with wheels at the base. The ground is covered in tall, golden grass, and the sky is a clear, bright blue. The overall scene is a wide, open agricultural landscape.

Ngā mihi nui

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