# Independent advisors report to assist ownership review

Prepared for the WESCT
by Utility Consultants Ltd
www.utilityconsultants.co.nz

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# 0. Summary at a glance

**The principle conclusions of this report are…**

- **The current 100% ownership of The Lines Company ("Company") by the Waitomo Energy Services Customer Trust ("Trust") returns about $5.4m of value per year to the community.**
- **This would be unlikely to occur under other ownership arrangements.**

## 0.1 The Trust and the Company

- The Lines Company owns and manages the electricity distribution network in the Waitomo[1] and King Country areas of the central North Island, which supplies 24,200 electricity customers across some of New Zealand's most challenging terrain including the slopes of Mount Ruapehu.
- The Lines Company is owned by the Waitomo Energy Services Customer Trust, similar to how your house or farm might be owned by a trust.
- The Waitomo Energy Services Customer Trust is governed by Trustees elected by the Trust's beneficiaries.
- The Trustees' responsibilities and obligations are set out in the Trust Deed.
- One of those obligations is to regularly review the Trust's ownership of The Lines Company, which is what this report is about.

## 0.2 The ownership review

- This report has been prepared to assist the Waitomo Energy Services Customer Trust with its Ownership Review.
- In addition to addressing the requirements of the Trust Deed, this report identifies the significant benefits of continued 100% Trust ownership which sees (i) lower line charges to all customers than what otherwise might occur, and (ii) the Company surplus being distributed to beneficial customers.

## 0.3 Key conclusions of the report

The high-level conclusions of this report include…

[1] "Waitomo" is used throughout this report to conveniently describe the former Waitomo Electric Power Board supply area, which includes virtually all of the Waitomo and Otorohanga Districts, and parts of the Taupo District (Mangakino, Whakamaru and Tirohanga).

- To date, the Company has charged its customers on average $0.9m less per year than allowed by law over the period 1st April 2020 to 31st March 2025, improving the competitiveness of local businesses and the well-being of households.

- This is in addition to the twice-yearly discount from the Company which has averaged about $4.5m per year over the period 1st April 2019 to 31st March 2025, and which is forecast to increase as published in the Company's Statement of Corporate Intent.

- Both of these returns of value to the community would be unlikely to occur under the other ownership arrangements considered.

- Keeping a corporate office within the network area and ensuring that services are provided from within the network area. This ensures that local knowledge is retained locally, and that professional career paths are available within the community.

- The Waitomo Energy Services Customer Trust's total expenses are higher than the other 2 comparable trusts (Waitaki and West Coast). Those average total expenses of about $390,000 per year should be considered in the context of keeping about $5.4m of value per year in the community ie. a payback of about 14x.

- An advantage of continued 100% Trust ownership is avoiding the inherent tension between investing in supply reliability for the benefit of customers, and paying dividends to an owner. Under the 100% Trust ownership model, Trust beneficiaries are also owners so they benefit either way.

- The option that is most likely to provide stable, long-term ownership and continued return of value to Trust beneficiaries and the wider community is continued 100% Trust ownership.

# Contents

# 1. Introduction

## 1.1 Context for this report

The context for this report is the Ownership Review of the Waitomo Energy Services Customer Trust (the "Trust") of its 100% shareholding in The Lines Company (the "Company"), as required by the Trust's Deed[2] (the "Deed"). A key theme of this report is the Trust beneficiary and wider community benefits that stem from the current 100% Trust ownership which would almost certainly be lost under the alternative ownership arrangements.

## 1.2 Ownership review requirements

Clause 9 of the Deed addresses the issue of distribution of shares in the Company, with clauses 9.4(a) and 9.4(b) setting out the following specific requirements for a report to be published by the Trust, viz…

> **9.4** At least one month prior to the conducting of the Poll the Trustees shall prepare and publish a report setting out:
>
> (a) an analysis of the performance of the Trust to the date of the report together with the advantages and disadvantages of continued Trust ownership of the Shares.
>
> (b) the advantages and disadvantages of a transfer of the Shares to Beneficiaries or to Local Authorities or a sale of the Shares and a transfer of the proceeds to Beneficiaries or to Local Authorities, and
>
> (c) any comments by the Directors as to the most appropriate form of ownership of the Shares.

The chapter headings of this report reflect the above requirements, and also examine in detail the wider customer and community benefits of the current 100% Trust ownership.

## 1.3 Electricity distribution industry

The electricity distribution industry includes 29 distribution companies which supply 2,290,000 electricity distribution customers, with the Company supplying 24,244[3] customers (as of 31st March 2025). Further details of the industry structure and how it is regulated are in Appendix 1.

[2] Deed reference 3rd December 2024.

[3] Taken from the Commerce Commission information disclosure compilation.

# 2. Advantages and disadvantages of continued Trust ownership

## 2.1 Trust Deed requirements

The Trust Deed requirements are…

**9.4** At least one month prior to the conducting of the Poll the Trustees shall prepare and publish a report setting out:

(a) an analysis of the performance of the Trust to the date of the report together with the advantages and disadvantages of continued Trust ownership of the Shares.

(b) the advantages and disadvantages of a transfer of the Shares to Beneficiaries or to Local Authorities or a sale of the Shares and a transfer of the proceeds to Beneficiaries or to Local Authorities, and

(c) any comments by the Directors as to the most appropriate form of ownership of the Shares.

## 2.2 Advantages and disadvantages

This section examines the advantages and disadvantages of (continued) trust ownership, and identifies whether each respective advantage or disadvantage is dependent on the Trust holding a 100% stake in the Company. These issues are discussed below:

| Issue | Advantage / disadvantage | Comment | Dependent on 100% trust ownership |
|---|---|---|---|
| **Customer benefits** | | | |
| • Shareholder value remains totally beneficiary owned. | Advantage | Avoids the tension between investing in supply reliability and paying dividends to non-beneficial owners. | Yes |
| • All of the Company's earnings attribute to the beneficiaries. | Advantage | | No, but earnings obviously attribute in proportion to stake held. |
| • Any sale of a large tranche of the Company shares by the Trust would be likely to yield a greater per-share value than if small groups of shares were "mopped up" by an acquiror directly from beneficiaries. | Advantage | A trust would be more likely to take sound advice on whether an offer is fair[4]. | No |
| • The Trust is likely to "look after" beneficiary interests (particularly pricing)[5], even if the | Advantage | | No, but would still require a controlling stake |

[4] There was plenty of evidence from the energy company share give-aways of the mid-1990's that most individual shareholders had little if any understanding of the value of their shares and rapidly on-sold them.

[5] It is noted that some EDB's that are subject to the Default Price Path are charging less than the DPP allows, effectively creating Customer value by not charging as much in the first place.

| | | | |
|---|---|---|---|
| formal governance mechanisms prohibit the Trust influencing pricing policy. | | | |
| • Properly structured tariffs and views on distributing income (especially via a "break even" approach) may reduce the tax payable by the Company. | Advantage | Less of the "community wealth" leaks out as tax. | Yes |
| • The current eligibility criteria for the discount inevitably disadvantages some beneficiaries eg. those who pay line charges all year but then cease to become a Company customer the week before the eligibility date for the annual discount. Seeking to correct this by (for example) defining 2 or more eligibility dates might advantage some, but might also disadvantage others ie. there will always be winners and losers. | Mixed | Dependent on exactly how the distribution roll is struck[6]. | No |
| • The beneficiaries' investment still has some exposure to the technology risks around distributed energy potentially stranding poles and wires. | Disadvantage | Whilst some asset stranding risk may still occur due to distributed energy, this landscape is now much clearer than it was at the time of the previous Ownership Review in 2020. This risk has reduced for those EDB's who are correctly migrating from legacy wires businesses to smart Distribution System Operators.<br><br>Observation suggests that the Company (i) has a good understanding of the thinking and processes that will sustain future value, and (ii) is well positioned to be the provider of distributed energy ie. reduced risk of other players cannibalising the Company's revenue streams. | Yes, although proportional to stake held. |
| • A strong focus on beneficiary ownership by the Trust could lead to worthwhile amalgamation opportunities being ignored or discarded due to a fervent focus on "local ownership". | Disadvantage | | No, a trust holding a lesser but controlling stake could still veto a worthwhile amalgamation offer. |
| **Governance** | | | |
| • The present Trust Deed requires regular formal reviews of ownership, ensuring that a substantial beneficiary investment is subject to regular scrutiny. | Advantage | | No, a trust holding a lesser stake could still initiate regular scrutiny. |
| • Resolution of shareholder issues should be easier with a trust than with a widely spread group of potentially conflicting interests. | Advantage | | Yes, as a trust holding even a controlling stake may still need to deal with directors appointed by shareholders with different views. |
| • Any new investors in the Company (should the Trust decide to sell a stake) would probably | Advantage | | No (because by definition if the trust sells, it will hold less than 100%) |

[6] Striking the distribution roll on 1 specific date will inevitably disadvantage those customers who move out of the EDB area the day before the roll is struck and arguably unfairly advantage those customers who move into the EDB area the day before the roll is struck.

| | | | |
|---|---|---|---|
| find it easier to deal with a trust as opposed to a widely spread group of shareholders. | | | |
| • Any minority investor in the Company (should the Trust decide to sell a stake) would be less likely to successfully force their will upon a trust than upon a widely spread group of small shareholders who lack any obvious "push back" mechanism. | Advantage | | No (because by definition if the trust sells, it will hold less than 100%) |
| • All of the directors are accountable to the same shareholder ie. there are no factions on the Board representing different shareholders. | Advantage | Even if the trust holds a controlling stake, directors appointed by other shareholders may cause the Board to deviate from the trust's views. | Yes |
| • Absence of conflicting goals amongst different shareholders. | Advantage | Although a trust holding a controlling stake would probably get its way, achieving that could prove more difficult than with a simple 100% trust-owned structure. | Yes |
| • Directors will be more accountable to a trust than to a widely spread group of small shareholders. | Advantage | | Yes |
| • The present Trust provides a stable environment for the Board and Management to focus on supply reliability and cost minimisation. | Advantage | | Not entirely, but 100% trust ownership provides the smoothest path. |
| • Present election arrangements helps maintain the accumulated experience of the Trustees. | Advantage | Maintaining trustee experience is not dependent on the trust's stake, however those trustee's influence is. | No |
| **Industry structure, positioning & ownership** | | | |
| • Provides a more robust defence against unwanted acquisitions of the Company. | Neutral | A trust is more likely to seek sound advice, but then could also reject fair offers. | No, only a controlling stake is required. |
| • A trust would be more likely to carefully evaluate an acquisition bid than small shareholders would. | Advantage | Could also reject fair offers despite trust beneficiaries wanting to sell. | No, trustee's diligence would not depend on stake held. |
| • Continued trust ownership would prevent minority interests gaining effective control. | Advantage | Depending on how the company's constitution is written, even a small shareholder may be able to veto Board decisions. | No, requires only a controlling stake. |
| • Low cost of maintaining the share register and performing other related activities. | Advantage | | Yes |
| • May limit the Company's ability to raise equity for future development. | Disadvantage | Hasn't proved to be a problem simply for funding routine electricity distribution works. | No, could occur with less than a 100% stake. |
| **Operating costs** | | | |
| • Existing Trust arrangement incurs election expenses every second year. | Disadvantage | Although this is a disadvantage it is probably a lower cost option than other ownership models. | No, would be incurred regardless of the trust's stake. |

| | | | |
|---|---|---|---|
| • The Trust's decisions represent the majority of beneficiaries' wishes, and by default will probably not represent those who would prefer the cash rather than an "on behalf of" stake in the Company. | Disadvantage | A possible advantage is that those individuals who would prefer the cash may be prevented from selling their stakes too cheaply. | No, requires only a controlling stake. |

## 2.3 Benefits of 100% Trust ownership

The benefits to beneficiaries of 100% trust ownership include…

- A single shareholder is likely to result in a Board that is more united, and therefore more able to focus on improving company performance rather than reconciling potentially competing shareholder interests.

- The discounts, dividends and lower line charges attribute to the beneficiaries rather than to a third party owner who would be more focused on financial returns.

- Over the period 1st April 2010 to 31st March 2025 the Company has charged its customers over $34m less than allowed by the default price-quality path, which would be unlikely to occur under the alternative ownership models examined.

- The dividends paid by the Company are more likely to remain in the local communities than under the alternative ownership models examined.

- The alternative ownership models would be less likely to retain a full head office and executive team within the local community.

- The alternative ownership models could see some locations or functions of the Company’s business serviced from other areas such as Te Awamutu or Taupo eg. Te Kuiti faults serviced from Te Awamutu.

- A trust is more likely to seek external advice and more able to afford external advice on either continued ownership or disposing of the shares in the Company, almost certainly more than individual shareholders might.

# 3. Advantages and disadvantages of other options

## 3.1 Trust Deed requirements

The Trust Deed requirements are…

**9.4** At least one month prior to the conducting of the Poll the Trustees shall prepare and publish a report setting out:

(a) an analysis of the performance of the Trust to the date of the report together with the advantages and disadvantages of continued Trust ownership of the Shares.

(b) the advantages and disadvantages of a transfer of the Shares to Beneficiaries or to Local Authorities or a sale of the Shares and a transfer of the proceeds to Beneficiaries or to Local Authorities, and

(c) any comments by the Directors as to the most appropriate form of ownership of the Shares.

## 3.2 Ownership options to be examined

A range of possible ownership options for the Company are shown below…

**Decreasing degree of Trust ownership** →

**Options** ↓

| | Total | Controlling | Minority | None |
|---|---|---|---|---|
| Retain full trust ownership. | 1(a) | | | |
| Transfer shares to beneficiaries. | | 2(b) | 2(c) | 2(d) |
| Transfer shares to the local authorities. | | 3(b) | 3(c) | 3(d) |
| Sale of the shares by the Trust, followed by transfer of the sale proceeds to beneficiaries. | | 4(b) | 4(c) | 4(d) |
| Sale of the shares by the Trust, followed by transfer of the sale proceeds to the local authorities. | | 5(b) | 5(c) | 5(d) |

## 3.3 Analysis of options

The issues associated with each option are considered below…

**Option 2 – Transfer shares to beneficiaries**

- Option 2(b) represents decreasing Trust ownership, albeit with a controlling stake retained. A possible outcome of this option is that at least some of those transferred shares could be on-sold (either to another EDB keen on consolidation, or simply to another investor).

- Options 2(c) and 2(d) represent further decreasing Trust ownership, but without the safeguard of the Trust retaining a controlling stake. Again, it is likely that at least some of those transferred shares would be on-sold.

- The evidence from the transfer of shares to EDB beneficiaries in the mid-1990's was that many beneficiaries didn't fully appreciate how valuable those shares were, and quickly on-sold them. From an inter-generational perspective, a century of careful value accumulation began to erode away.

- Options 2(b), 2(c) and 2(d) could incur higher administration costs such as a share register and compliance with the Financial Markets Authority requirements.

- It could be possible to attach some sort of connected customer criteria to the shares, preventing transfer (or making them worthless) to a non-customer owner. This begs the question, however, that if the intent is for customers to benefit from stable ownership of the Company then why not simply continue with 100% Trust ownership ?

**Option 3 – Transfer shares to the local authorities**

- On the face of it, the local authorities are more likely than individual customers to (i) appreciate the value of the shares, and (ii) take professional advice before selling the shares. In any case, a deed of transfer could specify (amongst other things) that the council cannot sell the shares or must undertake a ratepayer poll before selling. However, ownership by more than 1 local authority could also complicate ownership and make super-majority decision thresholds difficult to achieve.

- It would be nice to think that local authorities would use the dividends from the shares to fund something a bit special and out of the ordinary for the community beyond what would be funded from property rates, however the emerging picture is that at least some local authorities treat EDB dividends as an expected income stream (whilst on the whole retaining the capital for a range of purposes including retiring debt or investing in long-life community assets[7]).

- This could also trigger the need for allocating share parcels among more than 1 local authority, which (as noted above) could be difficult[8].

- From a philosophical angle of stable, long-term ownership for the benefit of connected customers, the question is "what might council ownership provide that Trust ownership doesn't". The above analysis suggests "possibly less than continued Trust ownership, or unlikely to be greater but with added transaction costs".

**Option 4 - Sale of shares, transfer sale proceeds to beneficiaries**

[7] Analysis of how energy company sale proceeds have been spent by councils and trusts, Utility Consultants 2003.

[8] The most prominent example of this was the defaulting of the ownership of Egmont Electricity to the South Taranaki District Council (because Egmont's share allocation plan was not approved by the Minister), which was straightforward because the Council and the Egmont boundaries coincided. In the case of Waitomo, the shares could need to be allocated between more than 1 council.

- Whilst options 4(b), 4(c) and 4(d) represent a similar transfer of value from the Trust *per se* to the beneficial owners similar to options 2(b), 2(c) and 2(d), the sale price is likely to be greater because the Trust would be required to undertake a more rigorous and disciplined sale process.

- Nonetheless, it would still be expected that at least some individual beneficiaries will spend their sale proceeds rather than invest it[9] (the squandering of intergenerational wealth).

**<u>Option 5 – Sale of shares, transfer sale proceeds to the local authorities</u>**

- Options 5(b), 5(c) and 5(d) are philosophically similar to options 3(b), 3(c) and 3(d) in that there is a transfer of value from the Trust to the local authorities.

- Similar to option 3, it would be nice to think that the local authorities would use the sale proceeds for something a bit special and different that wouldn't ordinarily be funded from property rates (and the evidence is that local authorities have done that in the past)[10].

[9] The washing machine that I bought with the sale proceeds of my WEL shares back in 1993 has long since gone to the dump…

[10] Analysis of how energy company sale proceeds have been spent by councils and trust, Utility Consultants 2003.

# 4. Analysis of the Trusts' performance

## 4.1 Trust Deed requirements

The Trust Deed requirements are…

> **9.4** At least one month prior to the conducting of the Poll the Trustees shall prepare and publish a report setting out:
>
> (a) an analysis of the performance of the Trust to the date of the report together with the advantages and disadvantages of continued Trust ownership of the Shares.
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> (b) the advantages and disadvantages of a transfer of the Shares to Beneficiaries or to Local Authorities or a sale of the Shares and a transfer of the proceeds to Beneficiaries or to Local Authorities, and
>
> (c) any comments by the Directors as to the most appropriate form of ownership of the Shares.

## 4.2 Comparators for analysis

It is noted that the Company has 11,603 beneficial connections as of 31st March 2025. It is therefore proposed to adopt the following energy trusts having similar numbers of beneficiaries as comparators…

- Waitaki Power Trust (about 13,500 beneficial connections).
- West Coast Electric Power Trust (about 14,500 beneficial connections).

The Trust has previously confirmed that the Waitaki Power Trust and the West Coast Electric Power Trust are to be the comparators for this report.

## 4.3 Performance metrics

Comparisons of the three Trusts are made using the following metrics[11]…

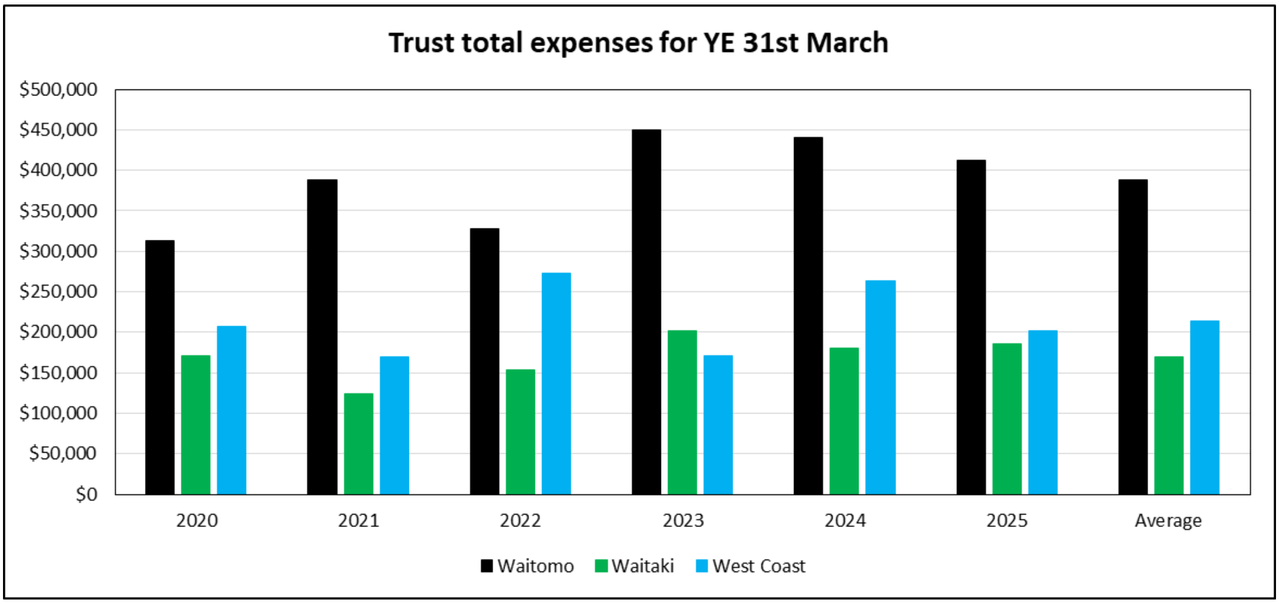
- Total Trust expenses.
- Trustee fees.
- Secretarial fees.
- Election expenses.
- Audit fees.

[11] All on a GST-exclusive basis.

## 4.4 Performance comparisons

### 4.4.1 Trust total expenses

Total trust expenses over the years ending 31st March 2020 to 31st March 2025 are shown below…

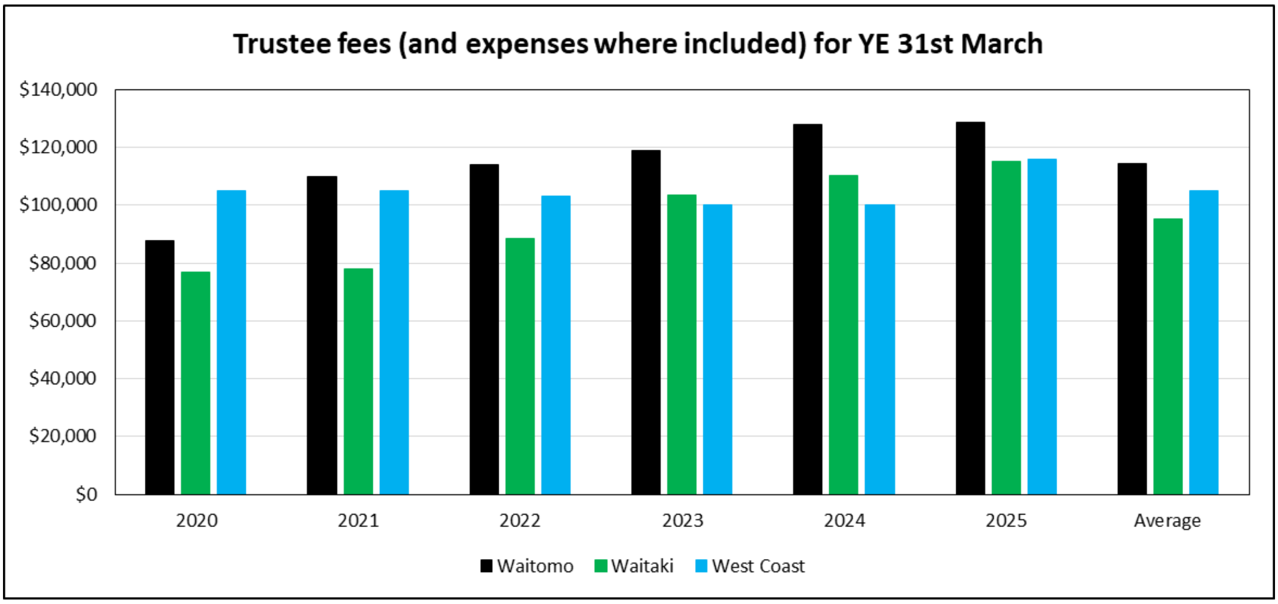



Commentary on chart…

- Average Waitomo total costs are higher than the comparators (individual explanations below).

### 4.4.2 Trustee fees

Trustee fees over the years ending 31st March 2020 to 31st March 2025 are shown below…

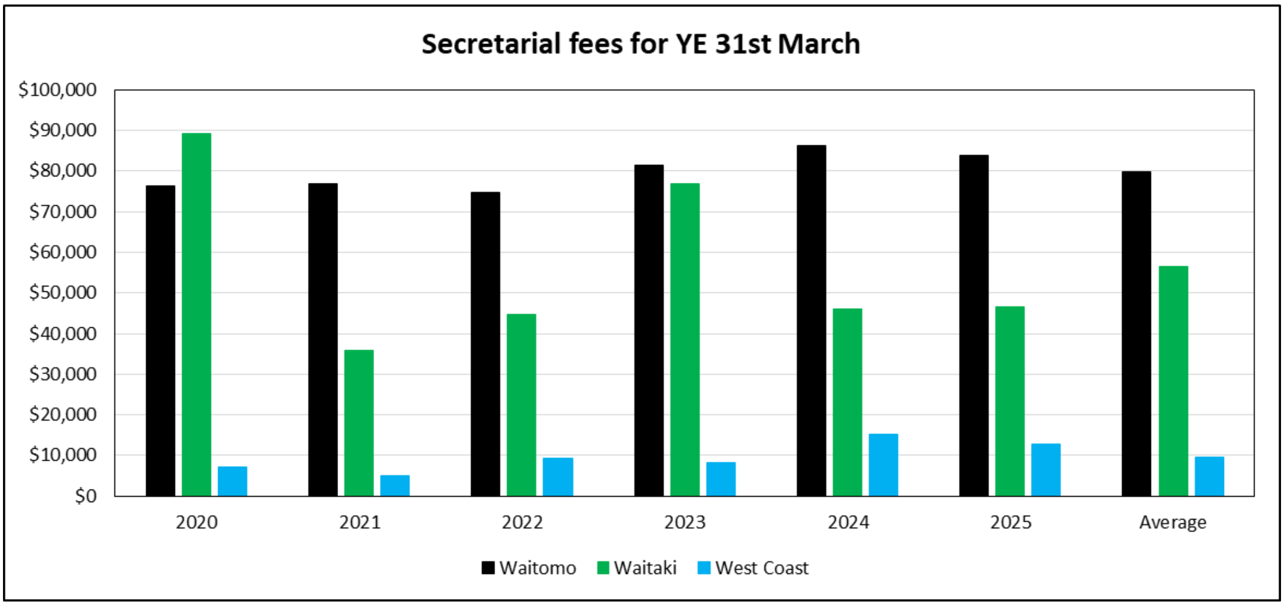


Commentary on chart…

- Average Waitomo trustee fees are slightly higher than the comparators.
- It is noted that the Waitomo trustee workload was higher in 2025 due to the Trust Deed being amended (which also led to higher other costs such as legal fees and customer consultation).

### 4.4.3 Secretarial fees

Secretarial fees over the years ending 31st March 2020 to 31st March 2025 are shown below…

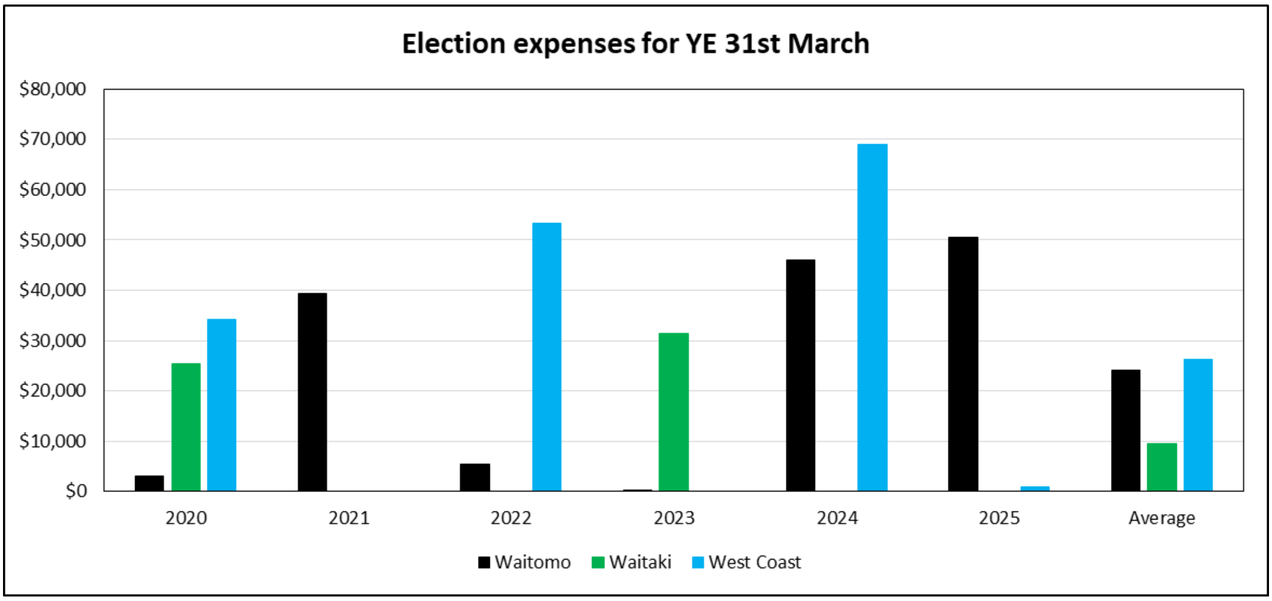



Commentary on chart…

- Average Waitomo secretarial fees are higher than the comparators.
- It is noted that the comparator Trusts obtain secretarial services on different terms, levels of service and delivery than Waitomo.
- Review of the Waitomo Trust Deed and the associated customer consultation required more secretarial work during 2025.
- It is also noted that the Waitomo secretary also provides some services that would otherwise be performed at professional accounting or legal fee rates.

### 4.4.4 Election expenses

Election expenses over the years ending 31st March 2020 to 31st March 2025 are shown below…

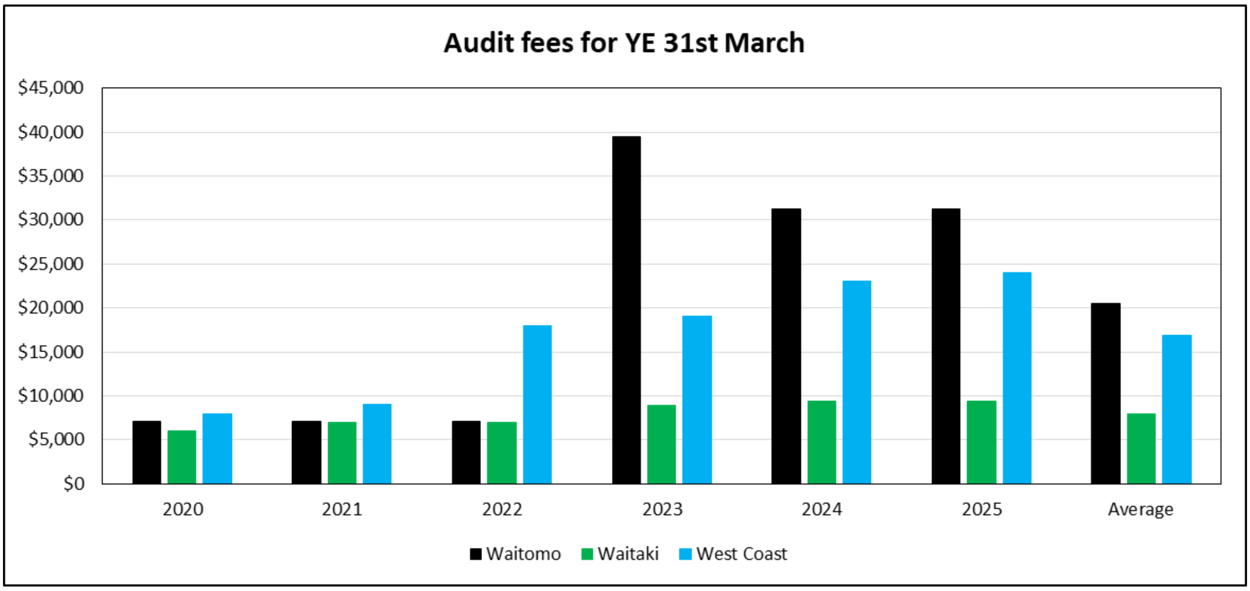



Commentary on chart…

- Waitomo average election expenses are within the range of the comparators.
- Amendment of the Waitomo Trust Deed required an additional election in 2025.

## 4.4.5 Audit fees

Audit fees over the years ending 31st March 2020 to 31st March 2025 are shown below…




Commentary on chart…

- Average Waitomo audit fees are slightly higher than comparators.
- Explanation for higher audit fees for 2023 onwards included the resignation of the incumbent auditor due to their unwillingness to sign off on group accounts where another firm has essentially

performed almost all the work. This resulted in the engagement of the Auditor-General using PricewaterhouseCoopers to resource the audit. The Auditor-General confirmed that the proposed audit fees were acceptable based on their other electricity trust audits.

- The Trust took legal advice on whether the Trust could use the same auditor as the Company, with the conclusion being that it could. The Trust subsequently requested 6 auditors to quote for the Trust's audits, and only 1 quote was received.

- The Trust has therefore recommended to the Beneficiaries that PricewaterhouseCoopers be appointed auditor from 2024 onwards; otherwise the cost could be materially higher if the Trust used an auditing firm other than the one the Auditor-General uses to resource the audit of the Company.

# 5. Conclusions

## 5.1 Conclusions on Trust performance

The Trust's total expenses are higher than the comparators (Waitaki and West Coast), with reasons for this being noted.

More importantly than these apparently higher costs, however, is the fact that the current 100% ownership of the Company by the Trust has retained about $5.4m of value per year in the community to date, and which is forecast to increase in future years as set out in the Company's Statement of Corporate Intent. This value retention would be unlikely to occur under other ownership arrangements.

Given the cost of operating the Trust (about $390,000 per year), this can be considered a 14x return on investment.

## 5.2 Conclusions on continued Trust ownership

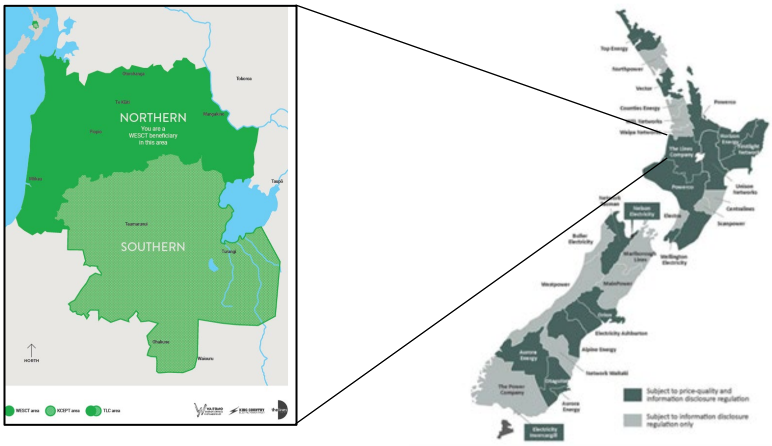
The key conclusion on continued 100% Trust ownership of the Company is that about $5.4m of value per year is retained in the community, and this is forecast to increase in future years.

## 5.3 Conclusions on other ownership options

The other ownership options would likely result in either or both of the value streams from the Company (discounts to the Trusts beneficiaries, and lower line charges to all customers) being curtailed.

# Appendix 1 – Electricity distribution industry structure

The electricity distribution industry includes 29 distribution companies, as follows…




Overall, there are 2,290,000 electricity distribution customers in NZ[12], of which the Company supplies 24,244 customers. Since the last ownership review in 2020, the following 3 network transactions have occurred…


The regulatory framework for electricity distribution is set out in Part 4 of the Commerce Act 1986[13], which includes *inter alia*…

- Subpart 3, which sets out the specific regulations to be compiled by the Commerce Commission (commonly known as the Input Methodologies).

[12] https://www.comcom.govt.nz/assets/pdf_file/0034/367198/Total-electricity-distribution-Year-to-31-March-2024.pdf

[13] http://www.legislation.govt.nz/act/public/1986/0005/latest/DLM87623.html

- Subpart 4, which provides for certain industries to be subject to an information disclosure regime. This requires specified electric transmission and distribution companies, gas pipeline companies and airports to annually compile and disclose a wide range of both historical and forecast information.

- Subpart 6, which sets out the default price-quality regulation that the Company is subject to. At the time of writing (December 2025 – February 2026) the Company is subject to the fourth default price-quality path (DPP4)[14] compiled pursuant to s52P of the Act[15], and will be subject to the DPP4 from 1st April 2025 until 31st March 2030.

- Subpart 9, which sets out specific regulations for electricity distribution.

[14] https://www.comcom.govt.nz/regulated-industries/electricity-lines/projects/2025-reset-of-the-electricity-default-price-quality-path-2/

[15] http://www.legislation.govt.nz/act/public/1986/0005/latest/DLM1685621.html

# Appendix 2 – Return of value to the community

The current arrangement of 100% Trust ownership returns the following two classes of value to the Trust beneficiaries and King Country communities…

- Value specific to the line charges paid by customers (averaging about $5.4m per year, which would very likely cease under the alternative ownership models).
- Various grants, sponsorships and scholarships.

## A2.1 Value specific to line charges

### A2.1.1 Charging less than the maximum allowed by law

The current 100% Trust ownership arrangement incentivises the Company to charge less than it is allowed to under the default price-quality path[16], viz…

| | DPP1 (First default price-quality path) | | | | |
|---|---|---|---|---|---|
| **YE 31st March** | **2011** | **2012** | **2013** | **2014** | **2015** |
| Allowable[17] | $25.67m | $27.41m | $29.75m | $33.36m | $38.08m |
| Actual | $24.46m | $26.65m | $28.97m | $28.98m | $30.57m |
| **Difference** | **$1.21** | **$0.76m** | **$1.95m** | **$4.39m** | **$7.51m** |

| | DPP2 (Second default price-quality path) | | | | |
|---|---|---|---|---|---|
| **YE 31st March** | **2016** | **2017** | **2018** | **2019** | **2020** |
| Allowable[18] | $35.11m | $35.87m | $36.18m | $39.25m | $41.23m |
| Actual | $31.44m | $31.75m | $32.56m | $35.92m | $40.15m |
| **Difference** | **$3.67m** | **$4.12m** | **$3.61m** | **$3.33m** | **$1.08m** |

| | DPP3 (Third default price-quality path) | | | | |
|---|---|---|---|---|---|
| **YE 31st March** | **2021** | **2022** | **2023** | **2024** | **2025** |
| Allowable[19] | $38.21m | $41.60m | $43.66m | $42.25m | $46.12m |
| Actual | $38.02m | $40.14m | $42.78m | $41.92m | $45.72m |
| **Difference** | **$0.19m** | **$1.46m** | **$0.88m** | **$0.33m** | **$0.40m** |
| Covid relief | $1.00m | $0 | $0 | $0 | $0 |
| **Adjusted undercharging** | **$1.19m** | **$1.46** | **$0.88m** | **$0.33m** | **$0.40m** |

| | **Total** |
|---|---|
| Allowable | $553.75m |
| Actual | $518.87m |

[16] Taken from The Lines Company's price path compliance statements.

[17] The precise terms used to describe the allowable revenue and actual revenue have changed over time, so this report has simply used "allowable" and "actual".

[18] The precise terms used to describe the allowable revenue and actual revenue have changed over time, so this report has simply used "allowable" and "actual".

[19] The figures for the DPP3 have been provided by the Company, and better reflect the actual value returned to consumers.

| | |
|---|---|
| **Difference** | **$34.88m** |
| Covid relief | **$1.00m** |
| Adjusted undercharging | **$35.88m** |

The above analysis shows that over the 15 year period from 1st April 2010 to 31st March 2025, the Company's customers[20] have paid over $35.88m less in line charges than they otherwise might[21] have done, which averages to about $2.4m per year. Over the period 1st April 2020 to 31st March 2025, the average undercharging has been $0.9m per year.

The Company has provided the following supplementary comments on the technical details of charging less than the default price path (DPP) allows…

- The Company's annual price-setting compliance statements demonstrate that during DPP3, prices were set broadly at the maximum allowable revenue. Variances between allowable and actual revenue over this period primarily reflect regulatory mechanisms, including inflation indexation, forecast versus actual wash-ups and smoothing across regulatory years, rather than deliberate decisions by the Company to charge less than the maximum allowable revenue.

- In particular, the cumulative variance recorded at the end of DPP3 (the year ending 31st March 2025) was transferred into DPP4 through the standard regulatory reset process, rather than representing a permanent reduction in prices for customers.

- Under DPP4, the Company has consciously set initial prices below the maximum allowable revenue. This reflects governance and ownership choices enabled by Trust ownership, aimed at supporting affordability and smoothing customer impacts while managing recovery of allowable revenue over the regulatory period.

## A2.1.2 Company discounts

Trust beneficiaries have also received the following line charge discounts on their electric bills...

| YE 31st March | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Discount ($m) | $5.6m[22] | $3.8m | $4.1m | $4.2m | $4.3m | $5.2m |

This averages about $4.5m over the last 6 years.

## A2.1.3 Additional benefits

Additional line charge benefits from the Company include…

- The Company has smoothed its prices for the year ending 31st March 2026, and is again charging less than allowed by regulation.

[20] It is specifically noted that this benefits all customers, not just the beneficial customers.

[21] The word "might" is specifically used, because whilst it would seem unlikely that a non-beneficial owner would charge less than the allowable revenue it is possible.

[22] An additional $1.87m Transitional Discount was paid to all the Company's connected customers (ie. not just Trust beneficiaries) during the year ending 31st March 2020 to assist customers with the transition from demand-based billing to time-of-use billing. This was in addition to the $1.995m Transition Discount paid during the year ending 31st March 2019.

- The Company introduced a cap during the transition to Time Of Use pricing so that customers did not pay more than their previous years bill.

## A2.2 Various grants, sponsorships and scholarships

The company provides the following grants, sponsorships and scholarships to communities in which the Company operates…

| YE 31st March | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|
| Community grant funding | $31,000 | $5,000 | $26,000 | $31,000 | $21,000 | $33,000 | $30,000 | $30,000 |
| Other sponsorship | $55,000 | $45,000 | $23,000 | $67,000 | $210,000 | $140,000 | $203,000 | $202,000 |
| Scholarships | $11,000 | $19,000 | $18,000 | $27,000 | $24,000 | $27,000 | $23,000 | $18,000 |
| Energy hardship funding | | | | | | | $125,000 | $100,000 |
| Maru | | $100,000 | $100,000 | $215,000 | $150,000 | $200,000 | $450,000 | $450,000 |
| Food bank grants | | | | $60,000 | | | | |
| Solar gifting | | | | | | | $4,000 | $5,000 |
| **Total (approx.).** | **$97,000** | **$169,000** | **$167,000** | **$400,000** | **$405,000** | **$404,000** | **$821,000** | **$805,000** |

Further non-cash community support includes the following…

- Loaning a Company electric car to the Turangi food bank.
- Installing solar panels on 2 marae.
- Providing in-school energy education to 269 tamariki in 13 schools.
- Providing 6 energy education workshops to 48 people.
- Installed 7 electric vehicle chargers.

It is possible that most or all of these value streams could continue under some of the alternative ownership models.

# Appendix 3 – Company performance

The following three cohorts of comparators of the Company's performance are made…

- A cohort comprising non-exempt beneficially owned EDB's that are known to be charging less than the respective default price-quality paths allow.
- A cohort of EDB's with similar numbers of customers per line kilometer (between 4 and 8 customers per kilometer of line).
- A cohort comprising beneficially owned EDB's in the central North Island.

| Cohort | | Basis for inclusion in cohort |
|---|---|---|
| 1 | • The Lines Company<br>• Top Energy<br>• Centralines<br>• Network Tasman | • Fully trust owned[23].<br>• At least some beneficial customers[24].<br>• Subject to a default price-quality path (non-exempt).<br>• Charging less than the DPP allows is a key method of returning value to beneficiaries[25]. |
| 2 | • The Lines Company<br>• OtagoNet<br>• The Power Company<br>• Top Energy<br>• Westpower | • Similar number of customers per line kilometer. |
| 3 | • The Lines Company<br>• WEL Networks<br>• Waipa Networks<br>• Counties Energy<br>• Electra | • Fully trust owned.<br>• Central North Island. |

Readers should note that Cohort #2 provides the strongest comparisons as it is based on the customer density, which is a recognised driver of EDB costs. The following performance measures have been adopted and presented on a per-customer basis…

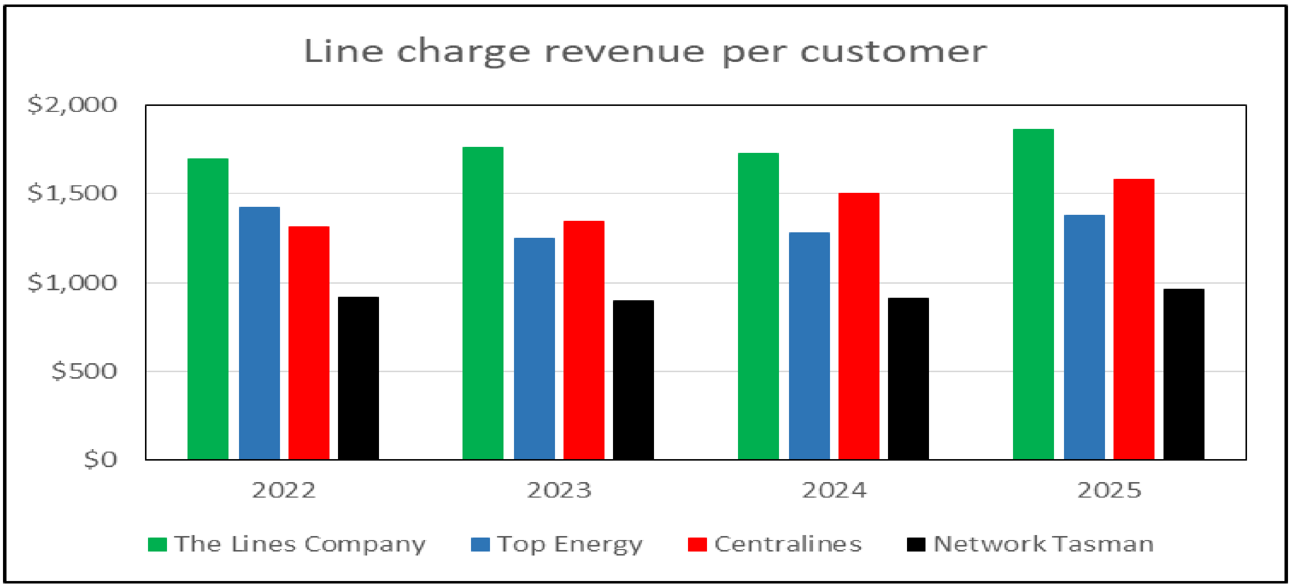
- Line charge revenue.
- Total operating expenses.
- Regulatory profit before tax.
- Total closing Regulatory Asset Base (RAB).

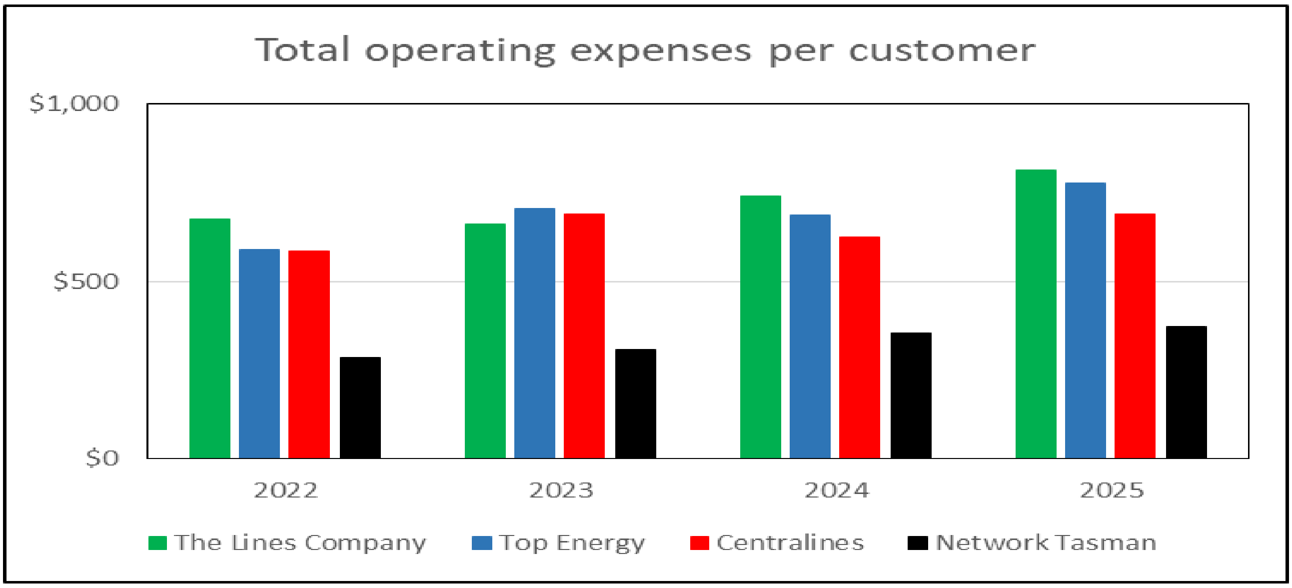
[23] Thereby excluding Vector, which is 75.1% trust owned.

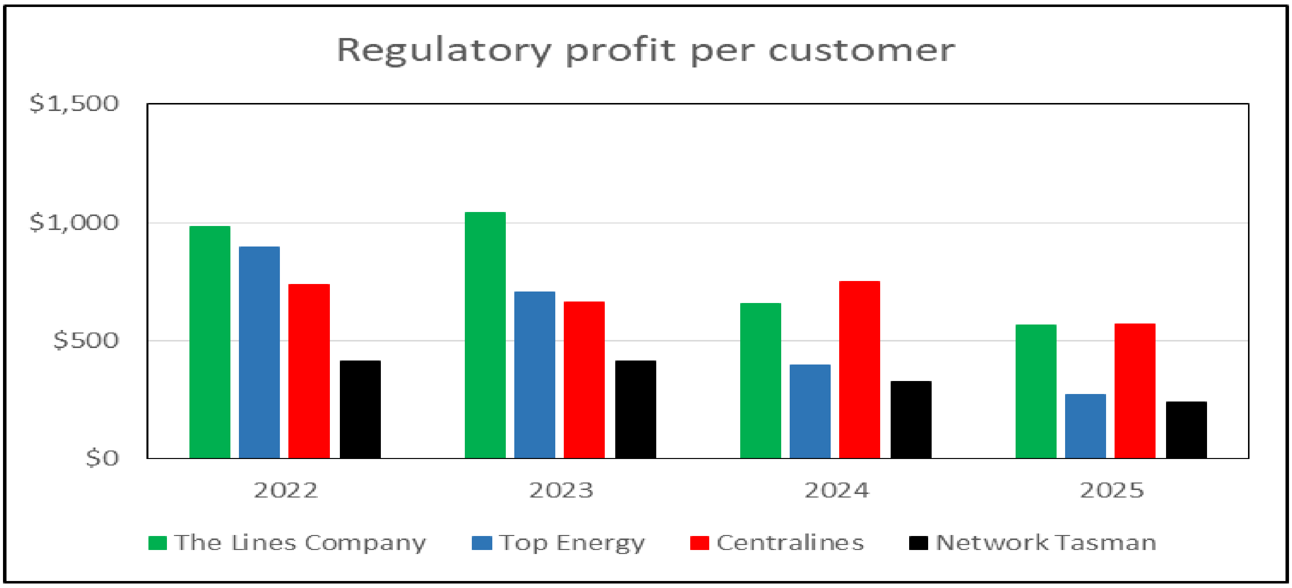
[24] Thereby excluding Firstlight Network (now part of Powerco), which does not have any beneficial customers.

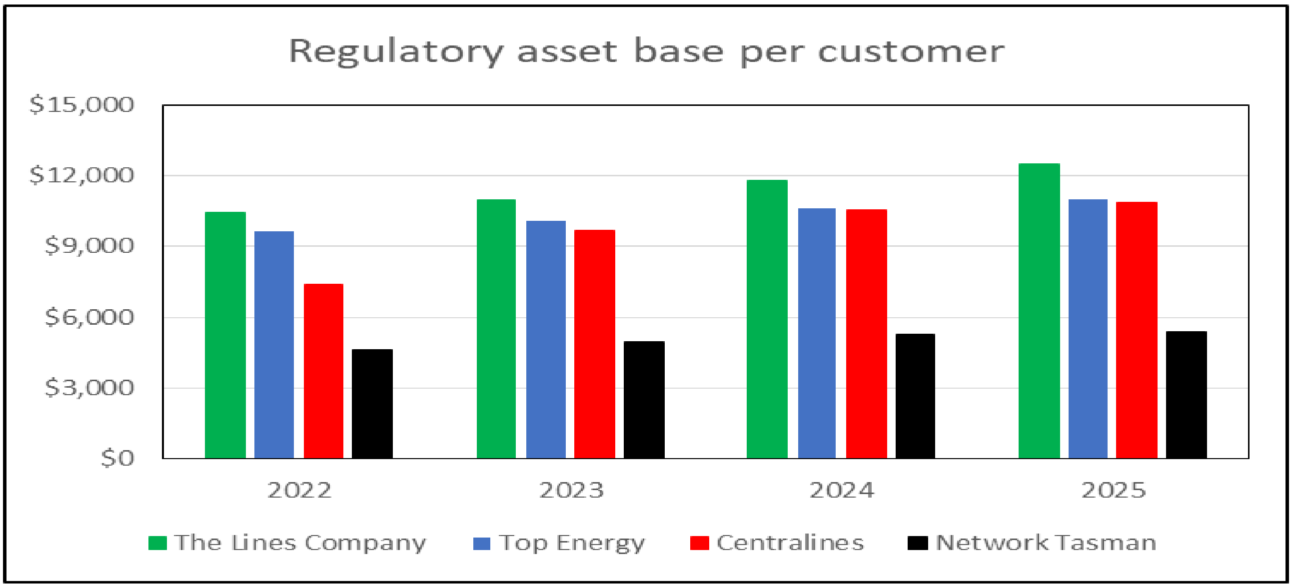
[25] Thereby excluding Unison, whose line charges are almost right up to the default price-quality path.

## A3.1 – Cohort #1 EDB's charging less than the DPP



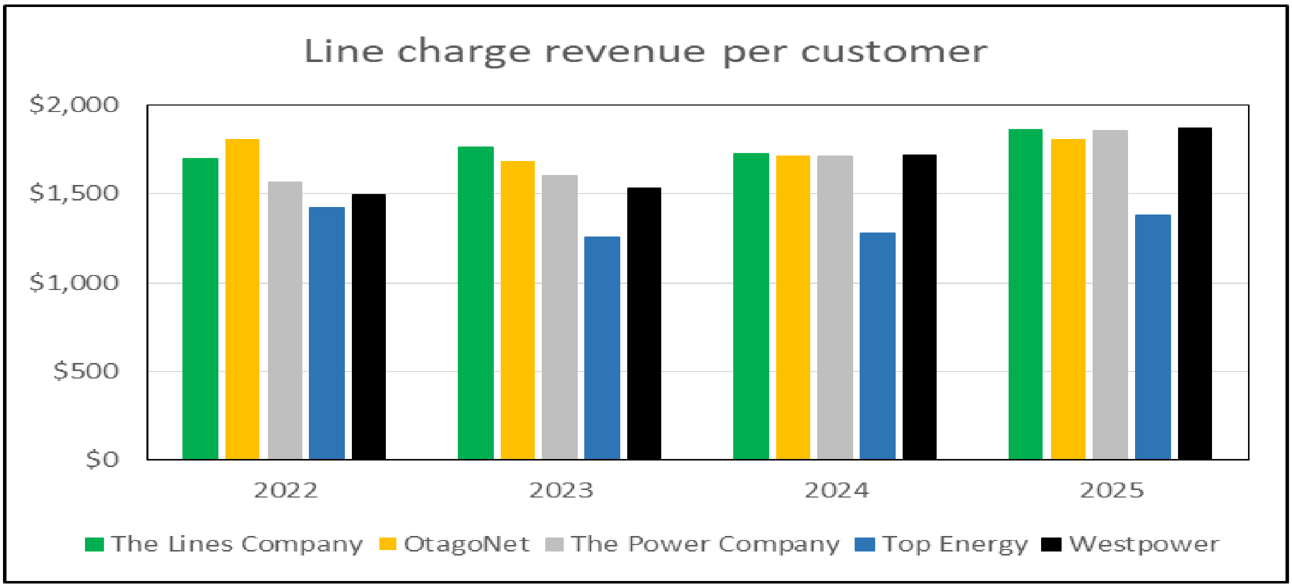


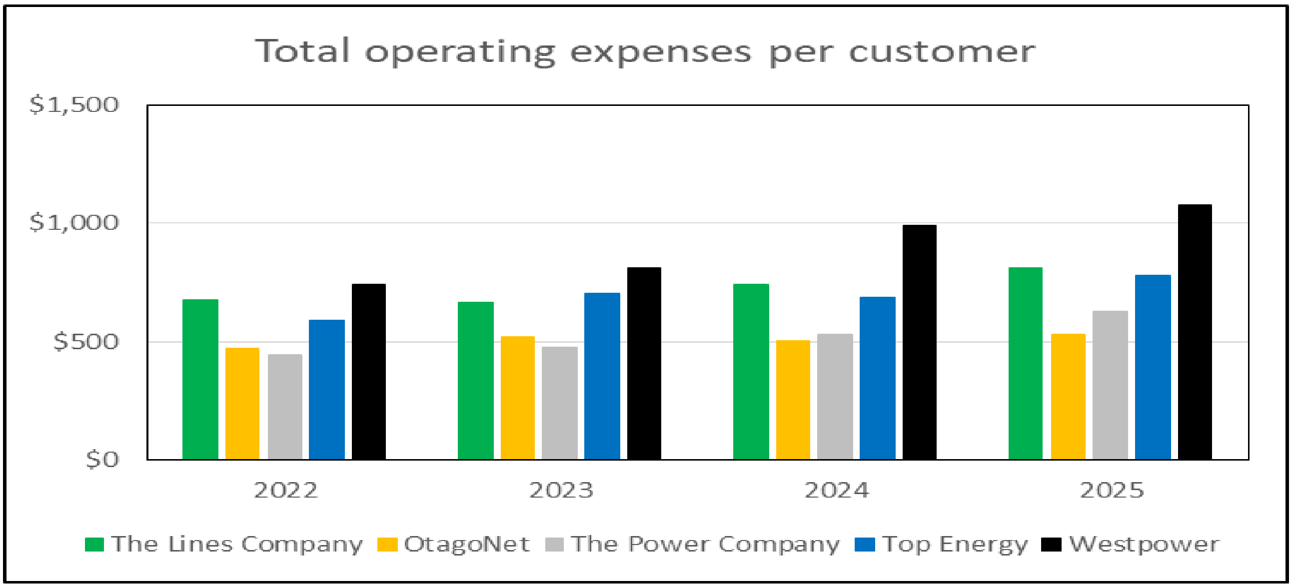



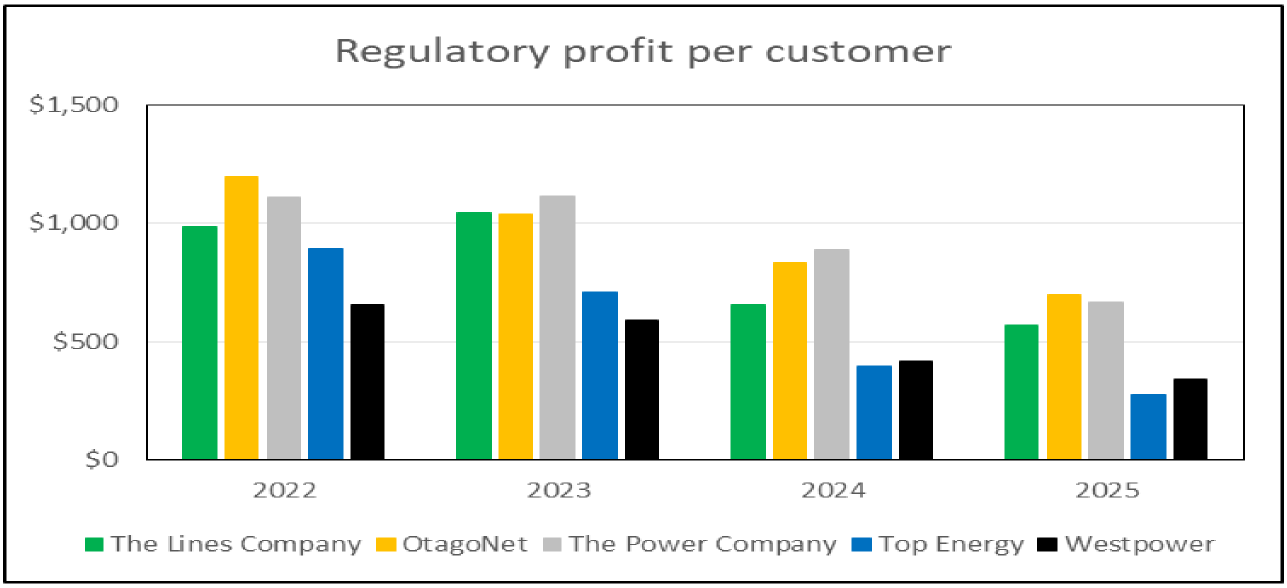

Commentary on charts…

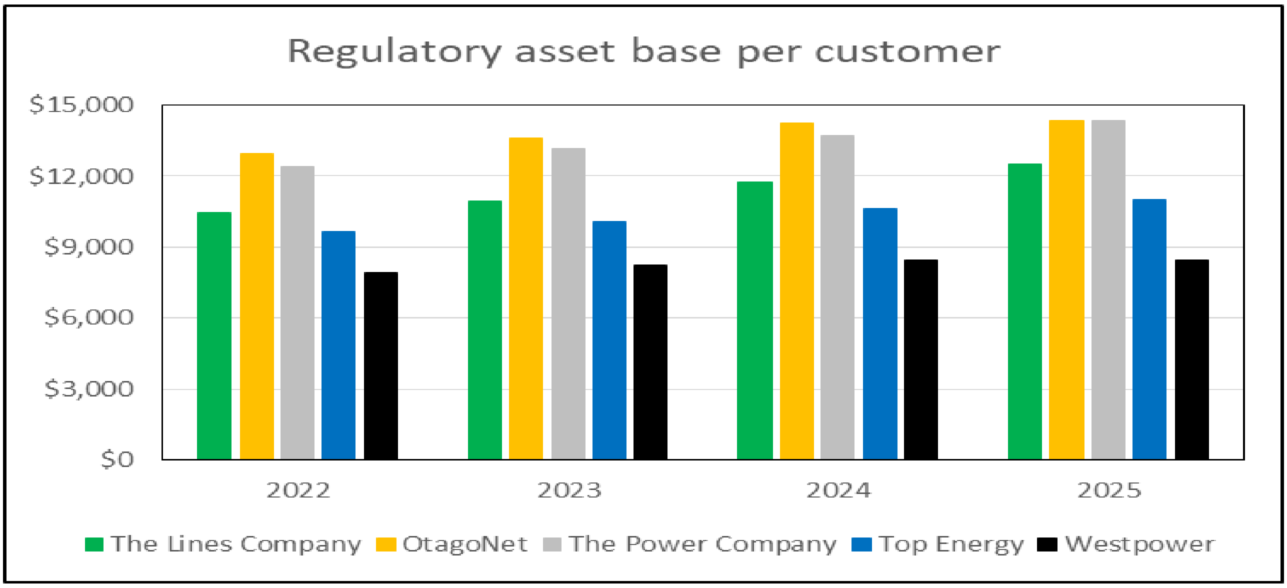
| Chart | Commentary |
|---|---|
| Line charge revenue per customer | The Company is at the high end of the cohort for all 4 years considered, which could be influenced by the Company's low customer density. |
| Total operating expenses per customer | The Company aligns well with 2 of the 3 comparators, noting that Network Tasman has about double the customer density of the Company. |
| Regulatory profit per customer | This measure varies over the 4 years examined, with the Company ranging from higher to aligning with 1 of the 3 comparators. |
| Regulatory asset base per customer | The Company is slightly higher than the other comparators, reflecting its low customer density. |

## A3.2 – Cohort #2 EDB's with similar customer density



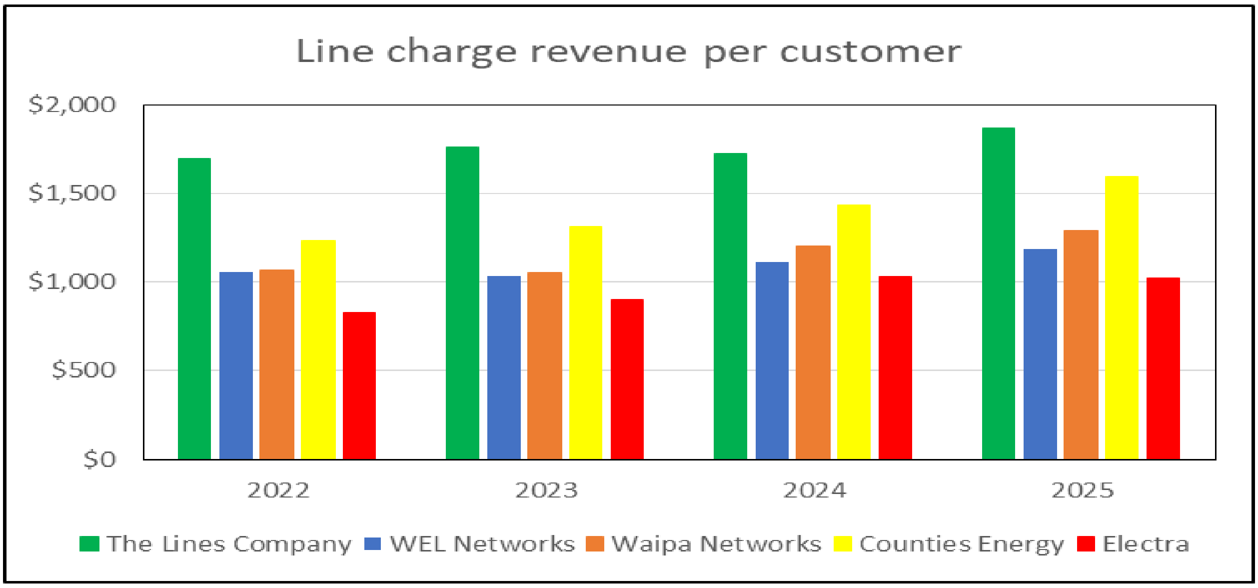


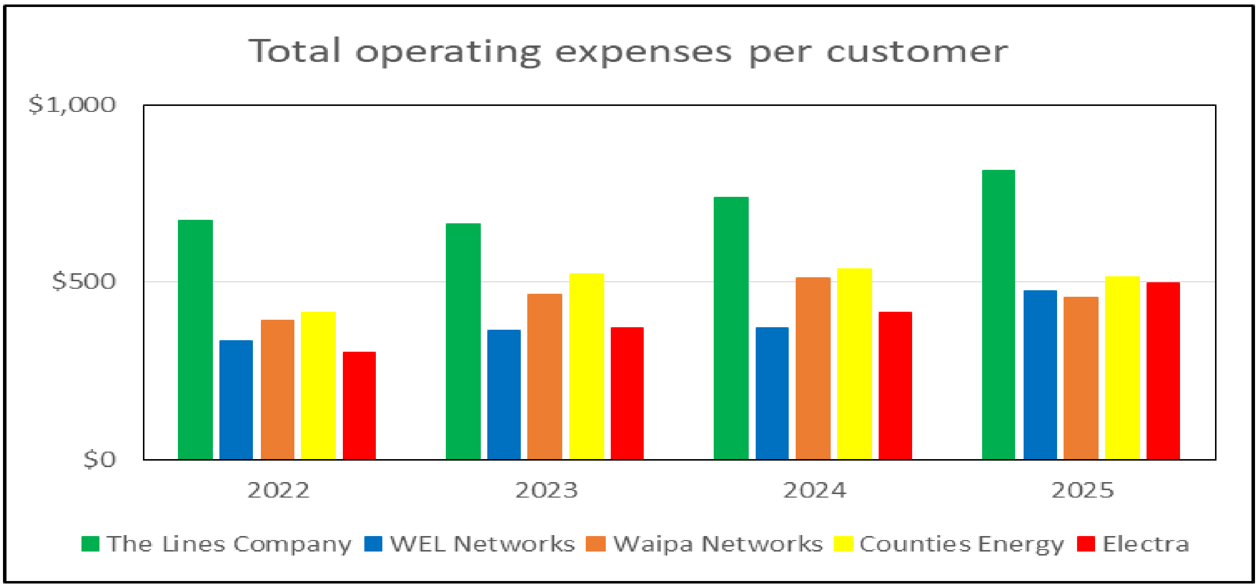



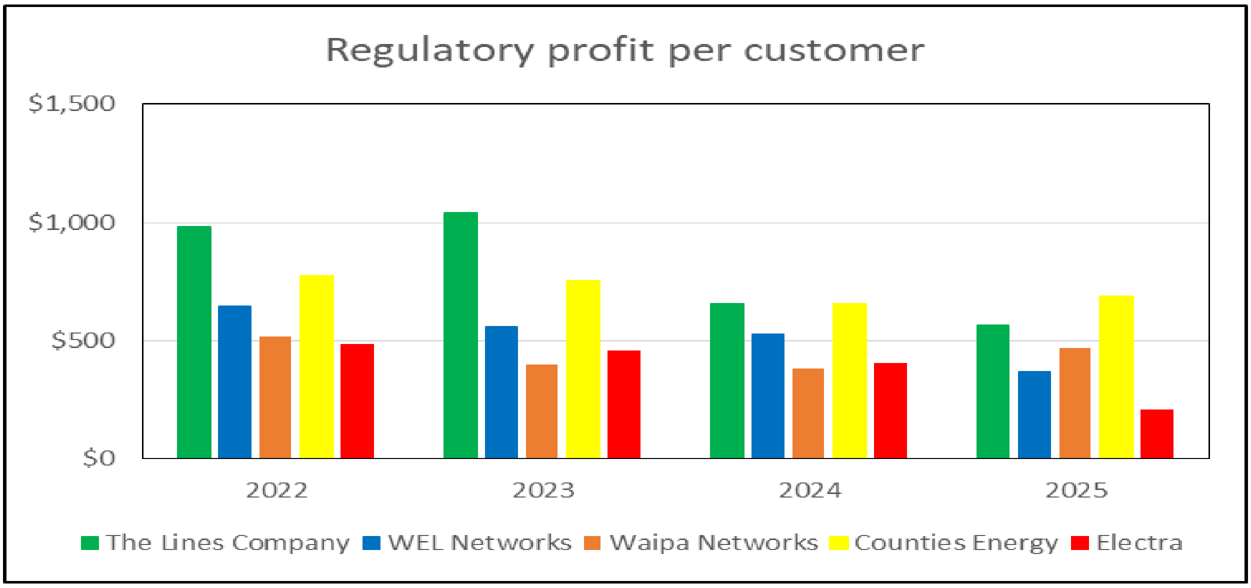

Commentary on charts…

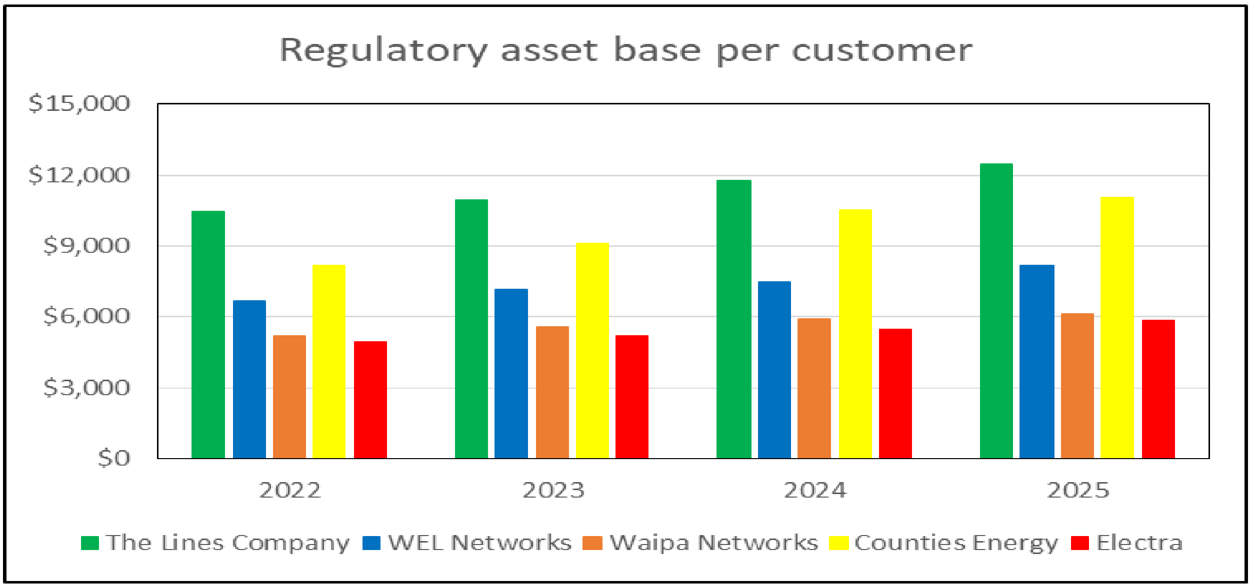
| Chart | Commentary |
|---|---|
| Line charge revenue per customer | The Company is within the cohort, albeit at the high end. |
| Total operating expenses per customer | The Company is within the cohort, slightly above the middle. |
| Regulatory profit per customer | The Company is within the cohort, slightly above the middle. |
| Regulatory asset base per customer | The Company is slightly above the middle of the cohort. |

## A3.3 – Cohort #3 Trust-owned EDB's in the central North Island






Commentary on charts…

| Chart | Commentary |
|---|---|
| Line charge revenue per customer | The Company is at the high end of the cohort, which would be expected given the Company's low customer density (5.4 customers per km) compared to 12 to 19 customers per km for the comparators. |
| Total operating expenses per customer | The Company is well above the 4 other comparators, which would be expected given the Company's low customer density. |
| Regulatory profit per customer | The Company was at the high end of the cohort in FY22, but has ramped down to the middle of the cohort by FY25. |
| Regulatory asset base per customer | The Company at the high end of the cohort, which would be expected given the Company's low customer density. |