



Unison Networks Limited  
Ownership Review

23 January 2007

Strictly Confidential

**PricewaterhouseCoopers**

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Mr Brian Martin  
Chairman  
Unison Networks Limited  
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HASTINGS

23 January 2007

Dear Brian

We are pleased to provide herewith our report on the performance of Unison Networks Limited and a review of share ownership options to contribute to the five yearly review of ownership as required by the Trust Deed of the Hawke's Bay Power Consumer Trust. This report is provided in accordance with our engagement letter dated 18 October 2006.

Yours sincerely  
PricewaterhouseCoopers



Lynne Taylor  
Director  
Corporate Finance



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# 1. Introduction

Hawke's Bay Power Consumer Trust ("HBPCT" or "the Trust") is required every five years to request a report from the Directors of Unison Networks Limited ("Unison" or "the Company"), the company that it holds in trust on behalf of its beneficiaries. The report must comply with the requirements of Section 4 of the HBPCT Trust Deed as summarised opposite.

PricewaterhouseCoopers ("PwC") has been engaged to provide professional advice in respect of items 4.1.1, 4.1.2 and 4.1.3 for input into the Directors' report.

In conducting this review, PwC has relied on financial information supplied by Unison, published information disclosure documents for other electricity distribution companies, PwC databases, interviews with HBPCT Trustees and interviews with the Chairman, other board members and CEO, and senior managers of Unison.

- This report has been structured into three parts as follows:
- Analysis of ownership options available to HBPCT and its beneficiaries, including the current Trust ownership structure;
- Analysis of the performance of the company over the last five years;
- Performance review of Unison's electricity distribution ('network') business in comparison with other companies engaged in electricity distribution.

This report is subject to the Restrictions in Appendix A. Appendices B and C include supporting information for the performance assessment of Unison.

## Scope of the Ownership Review

Under Section 4 of the Trust Deed, the Ownership Review Report must contain the following:

- 4.1.1 An analysis of the performance of the Company 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;
- 4.1.2 An analysis of other ownership options including, without limitation, share distribution to Consumers, sale of shares to the public, sale of shares to institutional investors, compared with retention of ownership by the Trust;
- 4.1.3 A comparison of the Company's performance with the performance of other companies engaged in energy distribution;
- 4.1.4 The conclusions of the directors as to the most appropriate form of ownership together with an indication whether the conclusions are unanimous and, if the decision is not unanimous, a summary of the conclusions of the dissenting directors;
- 4.1.5 If a distribution of shares is recommended the matters contained in paragraphs (a), (b) and (c) of Clause 4.6;
- 4.1.6 A statement as to whether or not the directors have had regard to any views expressed by the public with respect to ownership;
- 4.1.7 A summary of the professional advice (if any) obtained in respect of the preparation of the report.

## 2. Executive Summary

### Review of Ownership Options

Since the 2001 Ownership Review Unison has changed markedly and the industry in which it operates has also changed. Unison is now a much larger entity, with a focus on commercial returns and long term financial sustainability. Performance excellence however remains as a key objective. Other key changes have been the introduction of the Commerce Commission's targeted control regulatory regime over Electricity Lines Businesses ("ELBs") and, with the Taupo and Rotorua networks acquisition, the addition of consumers who are not beneficiaries of the Trust.

In undertaking our analysis of the ownership options available to Unison, including the assessment of the advantages and disadvantages of Trust ownership, we have carefully considered the implications of these changes.

We have also considered the obligations of the Trust - as embodied in HBPCT's Trust Deed, and the SCI – the key strategic document for the Company which is jointly endorsed by both the Board and the Trust.

There are a number of different ownership options available, and for the purposes of this report we have examined the following seven alternatives which fall across the spectrum of 100% Trust ownership to 100% divestment.

- 100% Trust Ownership
- Joint Ventures
- Merger by Way of Equity Exchange

- Distribution of 24.9% or 49.9% of Shares to Beneficiaries
- Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors
- Distribution of 100% of Shares to Beneficiaries
- Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors.

In assessing the ownership options for Unison we have used the following criteria which are consistent with the SCI and the Trust Deed:

- **Capability for Growth** – encompassing the ability to enhance shareholder value, the ability to raise capital, the ability to acquire or develop the skills necessary to achieve growth, the flexibility in the decision making processes required to support growth.
- **Performance Excellence** – encompassing excellence in safety, cost efficiency, network reliability and customer and employee satisfaction.
- **Commerciality** – the ability to achieve commercial rates of return, including prudence of investments.
- **Governance and Control** – incorporating the effectiveness of governance processes, flexibility in governance and the level of control over business activities inherent in each option.
- **Administrative Complexity** – including the costs and complexities of each option.

## 2. Executive Summary

### Conclusions on Trust Ownership

The key advantages of retaining 100% HBPCCT ownership are the ability for the Trust to balance financial and non financial performance, the simplicity of the structure and the role of custodian for existing and future generations of Hawke's Bay consumers. There appears to be a real benefit to Trust ownership in the balancing of financial and non financial performance and the retention of local influence over local assets for the benefit of both current and future generations of consumers. It is also the most simple option to implement, because it requires no change from the Status Quo.

The existing Trust structure has served Unison well to date. This should continue to be the case, however at some point in the future this structure may impose some limitations on Unison's ability to meet its growth, excellence and commercial objectives. A further review of its ownership structure would be appropriate at that time. As Unison faces increasing demand on capital to invest in its own aging network infrastructure, funds for distribution to the beneficiaries of the Trust will have to compete with funds for investment in new activities to achieve growth.

The 100% Trust option potentially constrains Unison's ability to meet its growth objectives and to maintain shareholder value in the medium term. Limited access to external influences and expertise are a key factor, as well as limited access to capital. The effectiveness of the 100% HBPCCT model is also dependent on the three yearly election cycle and the calibre and interests of local Trustee candidates. Solutions to this could include strengthening the Trust model by changing the number of trustees, introducing a rotation policy

to mitigate the current risks of the election cycle or introducing appointed trustees.

The existing benefits of Trust ownership can be retained to a greater or lesser extent by a number of the alternative ownership options considered (and other versions of these) and the external funding options available. The joint venture option is a model that Unison has already implemented in its development of the Te Pohue wind farm. This allows the Company to retain the benefits of trust ownership over its core assets, while accessing external resources to support growth into new areas.

One issue that the Company does need to consider in some detail is its ability to respond quickly to opportunities as they arise. This may take the form of identification of potential sources of debt funding, potential joint venture or equity partners or plans for partial distribution or sale and a discussion with the Trust as to their preferred options for alternative ownership models.

In this respect, we note that there are essentially three levels of sources of external funds available. Senior debt is generally the preferred source, up to a ceiling. Subordinated debt is the next preference and equity injection is the source of last resort as it results in dilution of current shareholders' interests. Initial analysis undertaken by the Company indicates that additional senior debt of up to \$100 million could be available to fund new opportunities based on the existing capital structure.

## 2. Executive Summary

When and if Unison takes the first step away from a 100% Trust model is, in our view, dependent on the size and nature of the growth opportunities that arise, the readiness of Unison to respond to these, the availability of debt funding and the availability of suitable investors or partners. At this time there does not appear to be an opportunity which is sufficiently advanced to justify Unison making a decision to move from the Status Quo.

### Analysis of Other Ownership Options

**Joint Ventures** – This option is able to be implemented alongside continued HBPCT ownership of core (network) assets and provides a vehicle for value growth and access to external expertise to improve performance. Unison has already successfully instigated a joint venture arrangement for the development of the wind farm.

**Merger by Way of Equity Exchange** – The role of the HBPCT can be preserved in relation to existing assets, but a merger provides opportunities for economies of scale and sharing of best practice to improve Unison's performance and increase value.

**Distribution of 24.9% or 49.9% of Shares to Beneficiaries** – While HBPCT retains control under this scenario, Unison's obligations to all shareholders would mean the influence of the Trust is more limited. This share give-away option provides no immediate access to capital or external expertise.

**Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors** – Similar to a partial share distribution, but this option provides access to capital. Shares may be listed.

**Distribution of 100% of Shares to Beneficiaries** – HBPCT loses influence over Unison's assets and is dissolved. Existing beneficiaries are gifted shares or cash for their own use. Unison potentially gains access to capital to the extent beneficiaries on-sell their shares. Returns to shareholders may become the primary measure of performance.

**Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors** – HBPCT loses influence over Unison's assets, but potentially gains a fund to manage on behalf of its beneficiaries, or alternatively existing consumers gain shares or cash for their own use. Shares may be listed. Unison gains access to capital and is able to pursue growth opportunities. As above, returns to shareholders may become the primary measure of performance.

### Unison's Performance

Over the past five years, Unison has shown strong revenue and earnings growth, coupled with a significant increase in asset base and the introduction of term debt into the balance sheet. Increasing requirements for investment on the network and external regulatory scrutiny have been challenges Unison has had to meet over this period, as well as the integration of the Rotorua and Taupo networks and the management of the Centralines network.

## 2. Executive Summary

Despite these limitations, Unison has been able to grow revenues from \$32.7m (before discounts) in 2002 to \$92.0m in 2006 with operating surplus (EBITDA) growing from \$6.2m to \$19.2m over the same period. In the 2006 financial year, Unison's fixed assets were revalued leading to a valuation gain of \$135.8m.

The introduction of new members into the senior management team, including a new CEO, coupled with investment in new technologies and information systems means the Company has achieved a notable step up in capability which is reflected not only in its day to day operations, but in its special projects such as the Te Pohue wind farm.

Unison's focus on customer service and ongoing communication with all stakeholders is starting to set it apart from many of its peers. The Commerce Commission's recent commendation of Unison's Asset Management Plan, the key network planning document, is another example of how Unison is continuing to achieve excellence across its business operations.

### Performance Against SCI Targets

There have been challenges to meeting SCI targets over the 2002 – 2006 period. Even though significant expenditure has been made on improving supply quality, the Company has faced obstacles in providing a high quality of supply, particularly as a result of external events such as

extreme weather. Supply quality performance for planned outages however, has exceeded SCI targets. In addition, increasing maintenance and regulatory costs have contributed to the Company exceeding its cost per customer targets. In spite of these higher costs, Unison has achieved, or been very close to achieving its earnings targets each year, and has exceeded its equity ratio targets since the acquisition of the Rotorua and Taupo networks.

### Performance Compared with Other ELBs

We have compared Unison's lines business performance with that of a group of like lines businesses, that is those that have load and customer density characteristics that most closely match those of Unison. For this purpose we have used the lines business regulatory disclosure information for the 2004 and 2005 years<sup>1</sup> for Unison and the following ELBs:

- Aurora Energy
- Counties Power
- Electra
- Horizon Energy Distribution
- Network Tasman
- Northpower
- Orion New Zealand
- Powerco
- WEL Networks
- Waipa Networks.

<sup>1</sup>2006 Disclosure Information is not yet available.

## 2. Executive Summary

Our key observations were:

- In 2004 and 2005 both Unison's SAIDI and SAIFI exceeded the medians of the comparable group. In both years the network was subject to extreme weather events which inflated the reliability measures.
- In 2004, Unison's average unit revenues were less than the median of the comparable group. Price increases in 2005 have resulted in prices which sit slightly above the group median, which is to be expected as other ELBs did not increase their prices to the same extent as Unison over this period.
- Therefore Unison's performance in the two key measures that consumers are primarily concerned with, system reliability and price, is in line with its peer group.
- Our analysis of unit operating costs has demonstrated that Unison is facing increasing cost pressure. In 2004, Unison's unit operating costs were within the lowest half of its peer group, however in 2005 they increased to levels consistent with the middle of the peer group rankings.
- The financial return measures rank Unison with the highest returns within its peer group. After adjusting for the different distribution policies of the ELBs in the peer groups, Unison falls to a ranking of 2 but is still well ahead of the group median. Thus, in spite of experiencing increased costs, Unison has generated strong earnings, above those of most of its peer group.

### Conclusion on Performance

In relation to comparable ELBs, Unison displays comparable levels of system reliability once extreme weather events are taken into account. Both revenues and returns have increased in 2005, as have costs, albeit from a low base. Overall the performance of Unison is well within the expected range of its peers.

## 3. Ownership Structure

### Review of Ownership Options

The last ownership review was undertaken in 2001. Unison is a very different entity in 2006 than it was in 2001<sup>1</sup>. The industry in which it operates is also somewhat different. Key changes which are relevant to the ownership review are:

- Unison has acquired the networks of the former UnitedNetworks based in the Rotorua and Taupo regions. Unison now supplies over 104,000 customers (compared with 57,000 in 2001), and services 11,584 square kilometres of supply area, including the management of the Centralines network (compared with 5,500 square kilometres in 2001).
- The beneficiaries of the HBPCT, the Hawke's Bay consumers, are now a subset of the total consumer base, whereas in 2001 the beneficiaries of the Trust represented the entire consumer base.
- Unison has leveraged its balance sheet for the acquisition and now has a debt/debt plus equity ratio of 34.7%, compared with no debt in 2001.
- The Company has successfully developed the Te Pohue wind farm joint venture with Hydro Tasmania to a point where consent has been granted for Stage 1, and Stage 2 consents are currently before the Environmental Court.
- The Commerce Commission has also granted an exemption to allow Unison involvement in renewable generation.

- The Commerce Commission has introduced a regulatory regime to actively monitor the price, profit and quality performance of electricity lines businesses.
- The Company has changed its strategy from a low cost, low price network to a more commercial model seeking target returns and considering more explicitly long term financial sustainability.

Section 4 of this report summarises Unison's achievements since 2001 and its performance over that period including comparison with other electricity distribution companies.

Our brief in respect of the review of ownership options was to consider:

- A summary of the advantages and disadvantages of Trust ownership;
- An analysis of other ownership options including disposal of a portion or all of the shares, including share distribution to consumers, sale of shares to the public and sale of shares to institutional investors; and
- Possible combinations of the above options.

In addition, our brief indicated that appropriate assessment criteria should include:

- The Company's purpose to operate as a successful business (as measured by both service quality and shareholder value);
- Flexibility to support growth; and
- Movement to an alternative ownership structure should be based on material benefits relative to the status quo.

<sup>1</sup> For the purpose of this report, figures quoted refer to the relevant financial year end, i.e., 31 March.

## 3. Ownership Structure

We have also considered the following documents:

- HBPCT's Trust Deed which requires the Trustees to act as diligent shareholders, which includes endeavouring to act collectively in the best interests of the Trust Fund and the beneficiaries, and monitoring the operating and financial performance of the Company on behalf of the shareholders.
- The Statement of Corporate Intent ("SCI") which is the key strategic document for the Company, updated annually with objectives for the following three year period. The SCI is reviewed and endorsed by the Trust. The 2006 SCI, which covers the periods ending 31 March 2007 – 2009 includes the objectives summarised opposite.
- Summary of Strategy Documents, April 2005 and June 2006 which further explore the growth objectives of the SCI.

### 2006 SCI Objectives

- To operate as a successful and sustainable business for the benefit of shareholders. This is to be achieved by ensuring shareholder value is enhanced while meeting the needs of consumers by providing a high quality and efficient service.
- While excellence in performance across the business remains a key focus, the Company will continue to expand the business in ways that will enhance the value and returns to shareholders. To be achieved by:
  - meeting customer demands for quality and reliability using innovative technological solutions
  - remaining cost effective
  - achieving a commercial rate of return
  - investing in additional lines business assets only where they are needed to meet consumer demand
  - continue to look for investment opportunities both within and outside of the core business, while ensuring these can achieve satisfactory rates of return.
- In addition, key operational aims are:
  - a reliable and efficient network
  - satisfied customers and stakeholders
  - a safe and healthy workplace
  - motivated and committed employees
  - commercial rates of return.

## 3. Ownership Structure

### Ownership Options

There are a number of different ownership options available across a spectrum bounded by continued 100% Trust ownership at one end and full divestment to consumers, institutional investors, industry investors or the public at the other end. Across the spectrum there are many permutations representing partial divestment or dilution of the existing 100% Trust ownership. For the purposes of this report we have examined the advantages and disadvantages of the following options which are representative of options which fall across the range<sup>2</sup>:

- 100% Trust Ownership
- Joint Ventures
- Merger by Way of Equity Exchange
- Distribution of 24.9% or 49.9% of Shares to Beneficiaries
- Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors
- Distribution of 100% of Shares to Beneficiaries
- Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors.

In evaluating each of these options we have considered the following factors:

- degree of control or influence
- effective governance
- flexibility
- ability to raise capital
- commercial drivers
- administration costs.

We have not considered regulatory or tax implications, however we recommend that advice is sought in each of these areas should a change from the Status Quo be considered further.

On the following pages we summarise the advantages and disadvantages of each of the options listed opposite. In the final part of this section of the report we review this analysis in the context of Unison's own objectives and plans.

<sup>2</sup> A co-operative option is similar to the existing Trust structure with some minor variations. For this reason we have not examined this option further.

### 3. Ownership Structure

#### Trust Ownership

Trust ownership is very common among New Zealand ELBs, with 21 of 28 companies having some trust ownership and 18 having full trust ownership like Unison. The advantages and disadvantages of Trust ownership can be summarised as follows:

| Advantages  | Disadvantages  |
|---|--|
| <ul style="list-style-type: none"> <li>▪ A 'natural state' with no implementation costs.</li> <li>▪ Trust can direct non-commercial objectives.</li> <li>▪ Environmental considerations are able to be supported i.e., undergrounding.</li> <li>▪ Able to manage the investment in long-term assets for the benefit of both current and future generations.</li> <li>▪ Ownership and management remains localised, enabling a strategic focus on regional benefits.</li> <li>▪ Allows the Company to focus on operating performance and growth strategies rather than primarily shareholder returns.</li> <li>▪ Ownership by a single entity simplifies reporting and governance procedures, minimising compliance costs.</li> <li>▪ Avoids the problem of finding 'a better investment' to apply the proceeds of sale.</li> <li>▪ Retains the option to merge to enhance company value and shareholder returns.</li> </ul> | <ul style="list-style-type: none"> <li>▪ May impede optimal commercial outcomes for the Company such as mergers.</li> <li>▪ Trust's regional objectives may be inconsistent with the Company's obligation to operate commercially.</li> <li>▪ Trust ownership is no longer necessary to protect the customer/beneficiary in terms of pricing and service quality, as regulation introduced since trusts were established is designed to do this.</li> <li>▪ Trust will find it challenging to maintain a desired level of dividends. Difficulty raising new equity means the Trust must sacrifice dividends and immediate benefits for beneficiaries in order for the Company to pursue growth opportunities. Some opportunities will not be possible to pursue due to size.</li> <li>▪ Company may find it difficult to implement 'best in class' service and keep up with innovation without access to external influences.</li> <li>▪ Three yearly election cycle generates risk of instability in Trust operations.</li> <li>▪ May be unable to attract Trustees with necessary skills to fulfil obligations.</li> </ul> |

### 3. Ownership Structure

#### Joint Ventures

Joint Ventures are a means of entering into business relationships with other parties for all or some of the business activities of an entity, while retaining some of the existing ownership structure.

| Advantages   | Disadvantages   |
|--|---|
| <ul style="list-style-type: none"> <li>▪ Ownership and management of core business may remain localised, enabling a strategic focus on regional benefits.</li> <li>▪ Trusts may be able to continue to direct non-commercial objectives for some parts of the business (as appropriate).</li> <li>▪ Achieves growth objectives.</li> <li>▪ May enhance access to capital.</li> <li>▪ Typically provides access to expertise to support horizontal or vertical growth opportunities.</li> <li>▪ Shares the risks inherent in new business opportunities.</li> <li>▪ Avoids incurring divestment costs.</li> <li>▪ Retains the option to merge to enhance company value and shareholder returns.</li> <li>▪ Can be relatively low cost and quick to implement.</li> <li>▪ Develops a model and relationships that may be used for other growth opportunities.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Benefits of the Joint Venture are limited to the scope of the activities they are associated with.</li> <li>▪ Potential loss of control over Joint Venture activities.</li> <li>▪ Other disadvantages of Trust ownership remain for core business such as potential conflict between local and commercial objectives, difficulty in raising capital, stability of Trust.</li> <li>▪ There are one off costs associated with establishing a Joint Venture.</li> </ul> |

### 3. Ownership Structure

#### Merger by Way of Equity Exchange

Mergers with like businesses, such as other lines businesses, are most readily executed by way of equity exchange, thus in effect diluting the existing trust ownership, but achieving an interest in a larger entity.

| Advantages   | Disadvantages   |
|--|---|
| <ul style="list-style-type: none"> <li>▪ Opportunity for both participants to capture and share synergy gains.</li> <li>▪ Provides opportunity to enhance value through merger benefits.</li> <li>▪ Does not require capital outlay to implement.</li> <li>▪ Values can be equalised through capital repatriation.</li> <li>▪ Local ownership retained, albeit shared.</li> <li>▪ Facilitates growth objectives.</li> <li>▪ Local objectives can be accommodated, e.g. different price and service objectives.</li> <li>▪ Trust may be able to continue to direct non-commercial objectives (as appropriate).</li> <li>▪ Process can be implemented relatively quickly with minimal cost.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Relative value setting can be contentious.</li> <li>▪ Governance and reporting structures tend to be complicated as the needs of both shareholders must be met.</li> <li>▪ Management restructuring may meet resistance. Job losses inevitably occur and head office may shift outside the region.</li> <li>▪ May result in loss of effective control without a control premium.</li> <li>▪ Most effective with a similar entity, therefore opportunities are limited.</li> <li>▪ Dilution of focus on local issues.</li> <li>▪ Trust regional objectives may be inconsistent with the Company's obligations to act commercially</li> <li>▪ Trust remains exposed to election cycle and Trustee candidate risk.</li> </ul> |

### 3. Ownership Structure

#### Distribution of 24.9% or 49.9% of Shares to Beneficiaries

Distribution of 24.9% allows the Trust to retain control over the Company’s constitution, and distribution of 49.9% allows the Trust to retain outright control. In reality a distribution (share give-away) would result in some beneficiaries selling their shares to external investors.

| Advantages  | Disadvantages   |
|---|---|
| <ul style="list-style-type: none"> <li>▪ Shares retained by the Trust could be used as currency in future transactions.</li> <li>▪ Potentially exposes the company to external monitoring and disciplines.</li> <li>▪ Results in a one off injection of wealth into the local community.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Local ownership could be diluted.</li> <li>▪ Provides no direct access to additional capital or skills for growth.</li> <li>▪ Implementing change could be more difficult given a broad shareholder base and difficulty in achieving consensus.</li> <li>▪ Company would be more exposed as a takeover target.</li> <li>▪ Potential increased compliance (disclosure, reporting) costs and complexity under public ownership.</li> <li>▪ Trust reduces its ability to assist its beneficiaries through influencing Company policy as the Company must consider its obligations to all shareholders.</li> <li>▪ Fragmented ownership may hinder future M&amp;A activity for the Company due to an inability to achieve consensus.</li> <li>▪ Ownership would be difficult to recover if the Trust changes its mind.</li> <li>▪ Distribution to existing beneficiaries raises intergenerational equity issues.</li> <li>▪ Process takes time and can be costly.</li> </ul> |

### 3. Ownership Structure

#### Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors

Sale of 24.9% allows the Trust to retain control over the Company’s constitution, and sale of 49.9% allows the Trust to retain outright control. Shares may be listed.

| Advantages  | Disadvantages  |
|---|--|
| <ul style="list-style-type: none"> <li>▪ Under partial public ownership the Company would be able to access equity capital more readily, enhancing its growth prospects.</li> <li>▪ Shares retained by the Trust could be used as currency in future transactions.</li> <li>▪ Company decision making would be more democratic and less driven by local concerns.</li> <li>▪ Scope for employee incentive or share option schemes to be introduced based on share price performance.</li> <li>▪ Exposes the company to external or market disciplines and monitoring.</li> <li>▪ Trust could retain a shareholding of significant influence and control and still diversify its investment with the sale proceeds.</li> <li>▪ The Trust could invest in debt or convertible securities that produce a more reliable income stream for its beneficiaries, while at the same time preserving the investment value in real terms through investment.</li> <li>▪ The Trust could invest in a more diversified portfolio of assets, consistent with prudent investment guidelines.</li> <li>▪ Company may become more efficient (e.g., through growth or takeover) enabling lower pricing for consumers and/or higher returns for owners.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Local ownership would be diluted and the Company’s focus on regional benefits would diminish.</li> <li>▪ Sale price would not be optimal as no control premium would be achieved.</li> <li>▪ Implementing change could be more difficult given a broad shareholder base and difficulty in achieving consensus.</li> <li>▪ Company would be more exposed as a takeover target.</li> <li>▪ Increased compliance (disclosure, reporting) costs and complexity under public ownership.</li> <li>▪ Trust reduces its ability to assist its beneficiaries through influencing Company policy as the Company must consider its obligations to all shareholders.</li> <li>▪ Fragmented ownership may hinder future M&amp;A activity for the Company due to an inability to achieve consensus.</li> <li>▪ Ownership would be difficult to recover if the Trust changes its mind.</li> <li>▪ Process takes time and can be costly.</li> </ul> |

### 3. Ownership Structure

#### Distribution of 100% of Shares to Beneficiaries

The full distribution (give-away) option would mean that the Trust would cease to exist. In reality some beneficiaries would sell their shares to external investors.

| Advantages  | Disadvantages  |
|---|--|
| <ul style="list-style-type: none"> <li>▪ Beneficiaries who retain their shares gain a hedge against a more profit-focused network owner.</li> <li>▪ Potentially exposes the company to external or market disciplines and monitoring.</li> <li>▪ Potentially results in partial public ownership which would enable the Company to access equity capital more readily, enhancing its growth prospects.</li> <li>▪ Results in a one off injection of wealth into the local economy.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Local ownership would be diluted and the Company's focus on regional benefits would diminish.</li> <li>▪ Provides no direct access to additional capital or skills for growth.</li> <li>▪ Distribution process may be complex and time consuming depending on number and quality of parties involved.</li> <li>▪ Implementing change could be more difficult given a broad shareholder base and difficulty in achieving consensus.</li> <li>▪ Increased compliance (disclosure, reporting) costs and complexity under public ownership.</li> <li>▪ Trust loses its ability to assist its beneficiaries through influencing Company policy and/or lower quality of service. Customers thus exposed to higher pricing or lower quality if regulation is relaxed.</li> <li>▪ Fragmented ownership may hinder future M&amp;A activity for the Company due to an inability to achieve consensus.</li> <li>▪ Ownership would be impossible to recover if the Trust changes its mind.</li> <li>▪ Distribution to existing beneficiaries raises intergenerational equity issues.</li> </ul> |

### 3. Ownership Structure

#### Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors

The full sale option would require the Trust to determine whether or not it retained the proceeds of sale to manage on behalf of its existing and future beneficiaries.

| Advantages  | Disadvantages   |
|---|---|
| <ul style="list-style-type: none"> <li>▪ Under public ownership the Company would be able to access equity capital more readily, enhancing its growth prospects.</li> <li>▪ Company decision making would be more democratic and less driven by local concerns.</li> <li>▪ Selling to another lines business should enable the Trust to achieve a high sale price, due to the value of synergies between the two entities, reflected in a control premium. This is best achieved under a contestable tender process conducted with trade buyers.</li> <li>▪ Trade buyers are able to offer variable consideration (e.g. cash, shares, interest bearing securities) that may fulfil the Trust’s future investment requirements.</li> <li>▪ Beneficiaries could purchase shares as ‘insurance’ against a more profit-focused network owner.</li> <li>▪ Scope for employee incentive or share option schemes to be introduced based on share price performance.</li> <li>▪ Exposes the company to external or market disciplines and monitoring.</li> <li>▪ The Trust could invest in debt securities that produce a more reliable income stream for its beneficiaries, while at the same time preserving the investment value in real terms through investment.</li> <li>▪ The Trust could invest in a more diversified portfolio of assets, consistent with prudent investment guidelines.</li> <li>▪ Company may become more efficient (e.g., through growth) enabling lower pricing for consumers and/or higher returns for owners.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Local ownership would be diluted and the Company’s focus on regional benefits would diminish.</li> <li>▪ Sale process may be complex and time consuming depending on number and quality of parties involved.</li> <li>▪ Implementing change could be more difficult given a broad shareholder base and difficulty in achieving consensus.</li> <li>▪ Increased compliance (disclosure, reporting) costs and complexity under public ownership.</li> <li>▪ Trust reduces its ability to assist its beneficiaries through influencing Company policy and/or lower quality of service. Customers thus exposed to higher pricing or lower quality if regulation is relaxed.</li> <li>▪ Fragmented ownership may hinder future M&amp;A activity for the Company due to a inability to achieve consensus.</li> <li>▪ Ownership would be difficult to recover if the Trust changes its mind.</li> <li>▪ There are two current uncertainties which impact on value, the 2009 regulatory reset and a potential change in government in 2008. This may mean that buyers discount value.</li> </ul> |

## 3. Ownership Structure

### Potential Ownership Options for Unison

As demonstrated in this report, Unison has made a number of considerable achievements since the last ownership review in 2001. From our discussions with Unison's management, Directors and the Trustees of the HBPCT we believed that these achievements have been assisted by the current ownership structure, in particular the ease of decision making and the willingness of the Trust to support the objectives of the Company over this period. In particular we note that the SCI process ensures that the Company and the Trustees engage annually on the future objectives of the Company (for a three year period) and that these objectives cover a broad range of performance, both financial and non financial.

In assessing the potential ownership options for Unison we have therefore carefully considered the objectives outlined in the 2006 SCI as we believe this best represents the common objectives of the Company and its owners and provides direction as to the future challenges Unison is likely to face.

As outlined earlier, key themes embodied in the SCI for the period 2007 – 2009 may be summarised as follows:

- Enhancing shareholder value by expansion both within and outside of core business activities
- Excellence in performance including safety, cost efficiency, network reliability and customer and employee satisfaction

- Achieving commercial rates of return
- Prudent investment in lines business assets.

The SCI also describes the existing and potential scope of activities for Unison as follows:

- Electricity distribution
- Distributed generation and back-up supply
- Electricity generation
- Network management services
- Contracting services.

Unison's current scope of operations is dominated by its electricity distribution activities, with smaller operations in network management and investigation into electricity generation.

Although the existing Trust ownership has assisted Unison over the past five years, it is not certain that the status quo will provide the most beneficial ownership structure to assist Unison to achieve its objectives looking forward. Therefore in order to expand on the generic assessment of the alternative options presented earlier, we have assessed each of these options for Unison in the context of both the factors presented earlier and the SCI objectives.

We have grouped these factors into the five key criteria shown overleaf.

## 3. Ownership Structure

### Assessment Criteria

- **Capability for Growth** – encompassing the ability to enhance shareholder value, the ability to raise capital, the ability to acquire or develop the skills necessary to achieve growth, the flexibility in the decision making processes required to support growth.
- **Performance Excellence** – encompassing excellence in safety, cost efficiency, network reliability and customer and employee satisfaction.
- **Commerciality** – the ability to achieve commercial rates of return, including prudence of investments.
- **Governance and Control** – incorporating the effectiveness of governance processes, flexibility in governance and the level of control over business activities inherent in each option.
- **Administrative Complexity** – including the costs and complexities of each option.

The table shown overleaf summarises our current assessment of the seven ownership options identified earlier against these criteria for Unison.

As stated previously, it is important to note that there are many permutations of these ownership options and we have chosen to focus on these seven alternatives which fall across the spectrum.

### 3. Ownership Structure

#### Assessment of Ownership Options for Unison

| Criteria                  | 100% Trust   | Joint Ventures  | Merger through Equity Exchange   | 24.9% or 49.9% Distribution  | 24.9% or 49.9% Sale   | 100% Distribution   | 100% Sale  |
|---------------------------|--|---|--|--|---|---|--|
| Capability for Growth     | Low, capacity currently limited to small incremental opportunities, limited capacity to acquire new skills                 | Medium, good vehicle for expansion into non-core opportunities, acquires skills of JV Partners  | Medium, good vehicle for expansion into like businesses, creates value through synergies, scale and ability to acquire skills                    | Low - Medium, may ultimately result in some ability to raise capital and acquire skills if beneficiaries sell their shares             | Medium – High, raises capital, some ability to acquire skills through industry investors, broad growth options available                                    | Medium – High, may ultimately result in some ability to raise capital and acquire skills if beneficiaries sell their shares | High – raises capital, some ability to acquire skills through industry investors, broad growth options available                         |
| Performance Excellence    | Medium, able to focus on core business but limited access to external influences may constrain achievements                | Medium – High, focus on core business maintained, but injection of expertise in some areas, economies of scope available  | Medium – High, focus on core business enhanced with exposure to external practices, economies of scale available                                 | Medium, focus on core business maintained. May be conflict between objectives of Trust and other shareholders                          | Medium, focus on core business maintained. May be conflict between objectives of Trust and other shareholders over priorities                               | Low - Medium, conflict between returns to shareholders and performance excellence potentially difficult to manage           | Low - Medium, conflict between returns to shareholders and performance excellence potentially difficult to manage                        |
| Commerciality             | Low, requires improved performance under thresholds, subject to Trust endorsement of financial objectives                  | Low – Medium, provides access to non regulated returns, core business performance remains constrained, subject to influence of Trust over commercial objectives | Low – Medium, provides access to performance improvements necessary to increase returns, subject to Trust(s) endorsement of financial objectives | Low - Medium, depends on degree of influence of other shareholders and Trust. Provides no funds for investment in growth opportunities | Low - Medium, depends on degree of influence of other shareholders and Trust, provides funds to invest in a broad range of opportunities to enhance returns | Medium, depends on influence of shareholder groups. Provides no funds to invest in growth                                   | Medium – High, depends on influence of shareholder groups, provides funds to invest in a broad range of opportunities to enhance returns |
| Governance and Control    | Simple, but subject to the influence of minority interests, the ability to attract skilled Trustees and the election cycle | Average, depends on relationship with JV partner, risks of Trust ownership remain   | Average, depends on relationship and influence of merger partner, risks of Trust ownership remain  | Average - Complex, potentially encompasses the challenges of all options   | Average - Complex, potentially encompasses the challenges of all options  | Average, external/public scrutiny and disclosure to be managed  | Average, external/public scrutiny and disclosure to be managed   |
| Administrative Complexity | Medium, and ongoing  | Medium – High, and ongoing  | Medium – High, and ongoing   | High initially and ongoing   | High initially and ongoing  | High initially, then Medium   | High initially, then Medium  |

### 3. Ownership Structure

#### Assessment of Ownership Options for Unison

The following table provides a simple summary of the options. More complex analysis is possible by assigning weightings to the assessment criteria. We suggest the Directors may wish to consider weighting these criteria in accordance with their current strategy in their deliberations of the alternatives presented.

| Criteria                  | 100% Trust | Joint Ventures | Merger through Equity Exchange | 24.9% or 49.9% Distribution | 24.9% or 49.9% Sale | 100% Distribution           | 100% Sale                   |
|---------------------------|------------|----------------|--------------------------------|-----------------------------|---------------------|-----------------------------|-----------------------------|
| Capability for Growth     | Low        | Medium         | Medium                         | Low - Medium                | Medium - High       | Medium - High               | High                        |
| Performance Excellence    | Medium     | Medium - High  | Medium - High                  | Medium                      | Medium              | Low - Medium                | Low - Medium                |
| Commerciality             | Low        | Low - Medium   | Low - Medium                   | Low - Medium                | Low - Medium        | Medium                      | Medium - High               |
| Governance and Control    | Simple     | Average        | Average                        | Average - Complex           | Average - Complex   | Average                     | Average                     |
| Administrative Complexity | Medium     | Medium - High  | Medium - High                  | High                        | High                | High initially, then Medium | High initially, then Medium |

#### Summary of the Advantages and Disadvantages of each Option for Unison

**100% Trust Ownership** - The key advantages for retaining 100% HBPCT ownership are the ability for the Trust to balance financial and non financial performance (for example, environmental considerations such as undergrounding), the simplicity of the structure and the role of custodian for existing and future generations of Hawke’s Bay consumers. It is also the most simple option to implement, because it requires no change from the Status Quo. This option potentially constrains Unison’s ability to meet its growth objectives and to maintain shareholder value in the medium term. Limited exposure to external influences and access to expertise are a key factor, as well as limited access to capital. The effectiveness of the 100% HBPCT model is also dependent on the three yearly election cycle and calibre and interests of local Trustee candidates. Solutions to this could include strengthening the Trust model by some or all of the following:

- Increasing the number of trustees
- Rotating trustees so that no more than (say) one half are re-elected at one time
- Appointing some or all trustees
- Reviewing the appointment of the Chair (say) annually
- Providing guidelines for the skills required of trustee candidates.

### 3. Ownership Structure

**Joint Ventures** – This option is able to be implemented alongside continued HBPCT ownership of core (network) assets and provides a vehicle for value growth and access to external expertise to improve performance. The advantages of HBPCT ownership over core assets are able to be retained. Its successful implementation depends on the identification of suitable opportunities and JV partners. The challenges of Trust ownership remain, albeit diluted to some extent. Unison has already successfully instigated a joint venture arrangement for the development of the wind farm.

**Merger by Way of Equity Exchange** – This is most likely to be implemented with like or related businesses such as another network owner or provider of services to network businesses. The role of the HBPCT can be preserved in relation to existing assets, but the merger provides opportunities for economies of scale and sharing of best practice to improve Unison's performance and increase value. The successful implementation depends on identification of suitable opportunities and effective negotiation with the other party or parties. The challenges of Trust ownership are retained.

**Distribution of 24.9% or 49.9% of Shares to Beneficiaries** – While the HBPCT retains control under this scenario, Unison's obligations to all shareholders would mean in effect the scope of influence of the Trust over core assets is more limited than under the previous models. This give-away option provides no immediate access to capital or external expertise. External reporting, disclosure and administrative requirements would be added to the existing costs of the Trust model.

**Sale of 24.9% or 49.9% of Shares to Consumers, the Public, Industry or Institutional Investors** – While the HBPCT retains control under this scenario, Unison's obligations to all shareholders would mean the influence of the Trust over core assets is also limited. This option provides access to capital but limited access to external expertise for performance improvement. Shares may be listed. As above, external reporting, disclosure and administrative requirements would be added to the existing costs of the Trust model. The challenges of Trust ownership are retained, albeit somewhat diluted.

**Distribution of 100% of Shares to Beneficiaries** – HBPCT loses influence over Unison's assets and is dissolved. Existing beneficiaries are gifted shares or cash for their own use. Unison potentially gains access to capital to the extent beneficiaries onsell their shares to an investor with capital resources. The Company is subject to a high degree of external scrutiny that must be managed. Returns to existing shareholders may become the primary measure of performance, at the expense of service quality for existing and future consumers.

**Sale of 100% of Shares to Consumers, the Public, Industry or Institutional Investors** – HBPCT loses influence over Unison's assets, but potentially gains a fund to manage on behalf of its beneficiaries, or alternatively existing consumers gain shares or cash for their own use. Unison gains access to capital and is able to pursue growth opportunities. Shares may be listed. The Company is subject to a high degree of external scrutiny that must be managed. As above, returns to existing shareholders may become the primary measure of performance, at the expense of service quality for existing and future consumers.

## 3. Ownership Structure

### Options for Funding Growth

One of the key issues Unison must address as part of this Ownership Review is the best means of funding its growth strategy. In this respect we make the following observations:

- There are essentially three levels of sources of funds available, senior debt, subordinated debt and equity.
- Senior debt is generally the preferred source up to a ceiling which is defined by either banking covenants, the preference of the Company to retain some headroom or credit ratings (either actual or benchmark). For network companies, ratings of BBB/BBB+ are typical.
- Subordinated debt is generally the next preference and may be sourced from bank or retail sources. It is also possible to structure hybrid equity instruments (which may be excluded from bank covenants). The ceilings for this source are generally based on debt servicing covenants.
- Equity injection is typically the source of last resort as it results in dilution of current shareholders' interests.

Initial analysis undertaken by the company indicates that additional senior debt of up to \$100 million could be available to fund new opportunities, based on the existing capital structure.

*Progression through each of these steps has recently been demonstrated by Vector as it sought to fund its purchase of UnitedNetworks followed by Natural Gas Corporation. It was only when it reached its ceiling for senior debt that it introduced other sources of debt, and finally elected to sell down 24.9% of its equity.*

### Conclusion on Ownership Options for Unison

There appears to be a real benefit to Trust ownership in the balancing of financial and non financial performance and the retention of local influence over local assets for the benefit of both current and future generations of consumers. It is also the most simple option to implement because it requires no change from the status quo.

The existing Trust structure has served Unison well to date. This should continue to be the case, however at some point in the future this structure may impose some limitations on Unison's ability to meet its growth, excellence and commercial objectives. A further review of its ownership structure would be appropriate at that time. The 100% Trust option potentially limits Unison's ability to fund investments in new activities whether they are expansion of existing activities or entry into new activities. This in turn may limit Unison's ability to achieve its target returns and improve shareholder value. As Unison faces increasing demand on capital to invest in its own aging network infrastructure, funds for distribution to the beneficiaries of the Trust will have to compete with funds for investment in new activities to meet the Company's growth objectives.

The existing benefits of Trust ownership can be retained to a greater or lesser extent by a number of the alternative ownership options considered (and other versions of these) and the external funding options available. The Commerce Commission now monitors ELB price, profit and quality performance on behalf of consumers, which previously was essentially the preserve of the consumer trusts.

### 3. Ownership Structure

We acknowledge that in the case of Unison, the realm of the Trust excludes consumers located on the Rotorua and Taupo networks, however the obligations of the Company to treat all customers fairly, combined with the Trust oversight in effect means that all consumers benefit to some extent from this interest. A divestment or sale of 100% of the shares in the Trust forgoes these benefits.

When and if Unison takes the first step away from a 100% Trust model is, in our view, dependent on the size and nature of the growth opportunities that arise, the readiness of Unison to respond to these, the availability of debt funding and the availability of suitable investors or partners. At this time there does not appear to be an opportunity which is sufficiently advanced to justify Unison making a decision to move from the status quo, with the possible exception of the Te Pohue wind farm development. A joint venture partner is already involved in this project.

One issue that the Company does need to consider in some detail is its ability to respond quickly to opportunities as they arise. This may take the form of identification of potential sources of debt funding, potential joint venture or equity partners, a plan for partial share distribution or sale and discussion with the Trust as to their preferred options for alternative ownership models.

The type of scenarios Unison and the Trust may wish to consider include:

- Identification of potential joint venture partners for vertical expansion opportunities such as generation, embedded generation and contracting.

*Examples are Marlborough Lines, The Power Company and Electricity Invercargill who jointly own Otago Power Services, a contracting company, Vector has part ownership of Treescape, a vegetation control company, the Eastland Trust has acquired the local seaport in addition to its electricity network interests and Electra has recently purchased 50% of DataCol, an electricity gas and meter reading business.*

- Agreements with other council or Trust owned lines businesses for potential mergers or acquisitions of networks.

*Examples are Marlborough Lines and Network Tasman's joint purchase of Nelson Electricity and Marlborough Lines, and The Power Company and Electricity Invercargill's purchase of Otago Power in a joint venture.*

- Development of a network management company with or without other partners to explore opportunities for facility management of other infrastructural businesses.

*An example is Powernet, which is owned by The Power Company and Electricity Invercargill, which manages both these networks, plus the OtagoNet JV network and more recently the Stewart Island electricity supply.*

## 4. Unison's Performance

### Operational Highlights

Since 2002 Unison has transformed itself from a provincial electricity network company to the fourth largest network in New Zealand. The purchase of the Rotorua and Taupo network assets from UnitedNetworks in November 2002 increased the catchment of Unison's network from 5,500km<sup>2</sup> to over 11,000km<sup>2</sup>, and increased customer connections from 58,000 in 2002 to over 104,000.

With the increased network size Unison has faced several challenges including the requirement to service and pay-down \$195m of debt that was raised to acquire the Rotorua and Taupo assets. Whilst Unison generates strong cash flows from the combined network operations and has made major repayments of debt, the opportunity to increase free cash flow and thus debt servicing ability has been tempered by increased requirements for capital expenditure and price controls introduced by the Commerce Commission during 2003.

Much of Unison's network was installed during the 1950s, '60s and '70s and significant portions of the network will need to be replaced over the next 20 years. In addition to aging assets, economic growth in Unison's catchment has been strong in the recent past and is expected to continue to grow significantly in the future. This growth will require significant expenditure on new reticulation and a strengthening of the capacity of existing feeder infrastructure. Collectively, this 'wall of wire' is predicted to result in capital expenditures of approximately \$30m per annum for at least the next ten years, a significant increase when compared to the \$7.3m spent in the 2002 financial year.

The implementation of the targeted control regime by the Commerce Commission has seen limitations placed on the prices that Electricity Lines Business can charge to consumers. Price increases by Unison in 2002 and 2004 breached these thresholds and resulted in the Commerce Commission publishing a declaration to control over Unison. Unison and the Commerce Commission have since reached a preliminary agreement with respect to pricing that will see small downward price adjustments and compliance with the threshold for the remainder of the regulatory period. A secondary effect of the regime and the ensuing price breaches has been a notable increase in the costs of regulatory compliance.

Despite these limitations, Unison has been able to grow revenues from \$32.7m (before discounts) in 2002 to \$92.0m in 2006 with operating surplus (EBITDA) growing from \$6.2m to \$19.2m over the same period. In the 2006 financial year, Unison's fixed assets were revalued leading to a valuation gain of \$135.8m.

| Unison Networks Limited          | 2002   | 2003    | 2004    | 2005    | 2006    |
|----------------------------------|--------|---------|---------|---------|---------|
| Area (km <sup>2</sup> )          | 5,500  | 11,584  | 11,584  | 11,584  | 11,584  |
| System Length (km)               | 3,903  | 7,490   | 8,935   | 9,264   | 9,317   |
| Consumers                        | 58,070 | 103,000 | 103,024 | 103,347 | 104,578 |
| Staff                            | 73     | 93      | 108     | 120     | 140     |
| Revenues (pre discounts) (\$m)   | 32.7   | 49.8    | 74.0    | 91.0    | 92.0    |
| Operating Surplus (EBITDA) (\$m) | 6.2    | 22.0    | 39.6    | 52.7    | 49.1    |
| Capex (\$m)                      | 7.3    | 8.3     | 13.1    | 20.2    | 25.0    |
| Total Assets (\$m)               | 142    | 394     | 395     | 397     | 482     |

Source: 2002-2006 Annual Reports, PwC Compendiums 2002-2005.

## 4. Unison's Performance

### Operational Highlights

In addition to the expansion of the network, Unison has embarked on a significant program of organisation rationalisation. In order to improve work flow, effective deployment of staff, and staff accountability the company was recently restructured into two groups, each led by a general manager. In addition, the contracting division and a business development function report to the Chief Executive. The network's control centre has been consolidated to Hastings, allowing for centralised control of the three regions under Unison's ownership in addition to the management contract it won for the Centralines distribution network in October 2002. One of the advantages of Unison's increased scale has been the ability of the company to attract and retain high calibre staff for key positions.

Unison has also undertaken improvements in its technical expertise, including the commissioning of its Work, Asset Management, Scheduling and Procurement System (WASP), the replacement of its financial and billing management information system and the combining of a number of stand alone databases into a single integrated system. The company has also invested in advanced technical expertise and equipment including the use of aerial network surveys, thermo-vision cameras, a Tan-Delta cable test set and improvements to interfaces between its various IS systems; all in an effort to improve service deliverability.

Unison's Asset Management Plan has been recognised by the Commerce Commission as being the fifth equal out of 28 ELBs in terms of both compliance to the Electricity Information Disclosure Requirements 2004 and by the perceived value of its Asset Management Plan as a useful operational document. Unison was also specifically recognised for its integrated risk management plan and for the inclusion of its lifecycle asset management details.

The Company has also moved to improve the security of supply to the Hawke's Bay Region by advancing the 156MW Te Pohue wind farm project. Unison has successfully obtained resource consent for Stage One of the farm and is progressing its application for Stage Two. The Company has also applied for and received the first ever exemption from the Commerce Commission to allow a lines company to be involved in renewable electricity generation.

Even though significant expenditure has been made on increasing the quality of supply the company has faced obstacles recently in providing a high supply quality to its customers. The most visible of these has been the extreme weather events of 2004 and 2005. Less visible, but no less important, have been the difficulties in recruiting suitably experienced construction and maintenance staff from New Zealand's increasingly limited talent pool. This is an important consideration for Unison as it progresses its programs of network renewal, network under-grounding, network expansion and the possible construction of the recently consented first stage of the Te Pohue Wind Farm Project.

## 4. Unison's Performance

### Performance against SCI Targets

Each year the Trustees of the HBPCT and the Directors of Unison agree on a Statement of Corporate Intent (SCI) for the coming year. Part of the SCI sets out certain financial and quality of supply targets in order for the Trustees to ensure that the best interests of the Trust's beneficiaries and Unison's customers in general are being served.

The table opposite displays Unison's performance against SCI targets for the period 2002 to 2006. A full analysis of performance against targets can be found in Appendix B.

Unison has shown a mixed performance with respect to earnings targets, however, in years where targets were not achieved the shortfall has generally been small.

The purchase of the Taupo and Rotorua networks from UnitedNetworks in 2002 significantly increased debt levels within the company. A substantial portion of this debt has been subsequently paid down, with Unison exceeding its equity ratio targets each year since the acquisition.

Cost-per-customer targets have not been met in four of the five periods examined, despite the cost targets increasing over the period examined. These cost increases have been contributed to by the increasing levels of maintenance that Unison is incurring in maintaining its aging network. A feature of recent years has also been the increasing levels of regulatory costs.

| Unison SCI Performance - Achievement of Targets   | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|
| <b>Financial Measures</b>   |      |      |      |      |      |
| Surplus before Taxation, Discounts and Net Interest as a percentage Return on Average Assets Employed               | ✓    | x    | x    | ✓    | x    |
| Net Surplus (after Discounts and Tax) as a percentage Return on Average Shareholder Funds                           | ✓    | x    | ✓    | ✓    | ✓    |
| Ratio of Shareholder Funds / Total Assets   | x    | ✓    | ✓    | ✓    | ✓    |
| Trading Surplus (excluding Depreciation) as a percentage of average assets employed                                 |      | x    | x    | ✓    | x    |
| Surplus before interest, tax and discounts as a percentage of average assets employed (excluding intangible assets) |      | x    | x    | ✓    |      |
| Net Surplus (excluding discounts) as a percentage of average shareholders funds                                     |      | x    | ✓    | x    |      |
| <b>Operating Cost Comparison</b>  |      |      |      |      |      |
| Direct Costs Per Customer   | x    | x    | x    | x    | x    |
| Indirect Costs Per Customer   | x    | ✓    | x    | ✓    | x    |
| <b>Total Costs Per Customer</b>   |      | ✓    | x    | x    | x    |
| Regulatory Costs  |      | ✓    | ✓    | ✓    | x    |
| <b>Net Comparable Costs</b>   |      | ✓    | x    | x    | x    |
| <b>Network Performance</b>  |      |      |      |      |      |
| <b>SAIDI</b>  |      |      |      |      |      |
| SAIDI Planned   | ✓    | ✓    | ✓    | ✓    | ✓    |
| SAIDI Unplanned   | x    | ✓    | x    | x    | x    |
| <b>Unison SAIDI</b>   | ✓    | ✓    | x    | x    | ✓    |
| SAIDI Transpower  | x    | ✓    | ✓    | x    | ✓    |
| <b>Total SAIDI with Transpower</b>  | ✓    | ✓    | x    | x    | ✓    |
| <b>SAIFI</b>  |      |      |      |      |      |
| SAIFI Planned   | ✓    | ✓    | ✓    | ✓    | ✓    |
| SAIFI Unplanned   | ✓    | ✓    | x    | x    | x    |
| <b>Unison SAIFI</b>   | ✓    | ✓    | ✓    | x    | x    |
| SAIFI Transpower  | x    | ✓    | ✓    | x    | ✓    |
| <b>Total SAIFI with Transpower</b>  | x    | ✓    | ✓    | x    | x    |
| <b>CAIDI</b>  |      |      |      |      |      |
| CAIDI Planned   | x    | x    | x    | x    | x    |
| CAIDI Unplanned   | x    | x    | x    | ✓    | ✓    |
| <b>Unison CAIDI</b>   | ✓    | x    | x    | ✓    | ✓    |
| CAIDI Transpower  | x    | ✓    | ✓    | x    | x    |
| <b>Total CAIDI with Transpower</b>  |      |      | x    | ✓    | ✓    |
| <b>Faults Per 100km Line</b>  |      |      |      |      |      |
| Underground   | ✓    | ✓    | ✓    | ✓    | ✓    |
| Overhead  | x    | x    | x    | ✓    | ✓    |
| <b>Total System</b>   | x    | x    | x    | ✓    | ✓    |

## 4. Unison's Performance

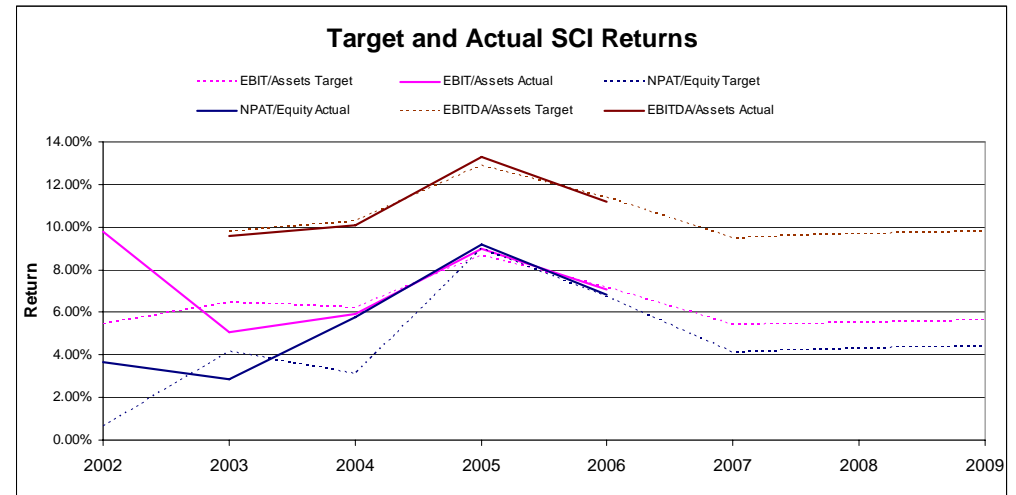
### Performance against SCI Targets

Whilst Unison has had mixed outcomes with respect to the quality of supply service, the duration and frequency of planned outages have been below target. It is noted that the duration and frequency of unplanned outages is influenced by events which are partly outside the control of management. Extreme weather in 2004 and 2005 are examples of uncontrollable events that caused Unison to breach its SAIDI targets.

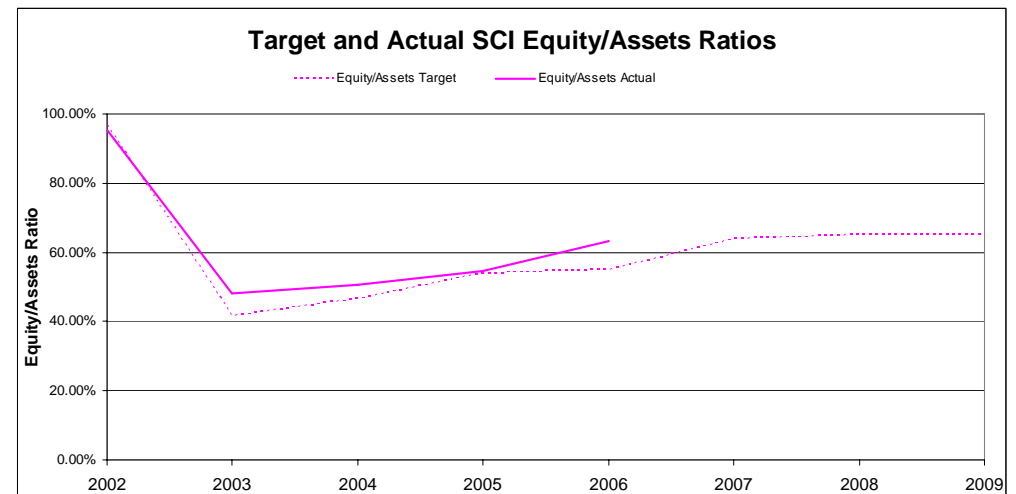
### Future Targets

The most recent SCI also outlines budgeted and projected targets for the period 2007 to 2009, which are displayed, together with historic targets and actual performance, on the charts opposite and the table in Appendix B.

Financial targets show slight improvements of the earnings metrics and a slight deterioration of the cost metrics based on the most recent performance by Unison. The quality measures are largely in line with the targets set by the Commerce Commission for the quality component of the thresholds for the period ending 31 March 2009.



Source: Annual Reports 2002 – 2006, 2006 SCI



Source: Annual Reports 2002 – 2006, 2006 SCI

## 4. Unison's Performance

### Financial Performance

Unison Networks has shown strong revenue and earnings growth over the period 2002 to 2006 as displayed in the table opposite. This growth has been fuelled primarily by the acquisition of the Taupo and Rotorua networks in 2002 and line charge increases in April 2002 and March 2004. The decision to increase prices was made to target a commercial level of return.

Against this strong increase in revenues, expenses have also increased markedly over the period. Increases in operating costs per customer reflect the increased levels of repairs and maintenance required to maintain the aging network and the increased level of regulatory expense incurred by Unison.

Consistent with owning a larger network, the Taupo and Rotorua purchase has increased depreciation and amortisation charges. A revaluation of the company's fixed assets in the 2006 financial year lead to a significant portion of goodwill relating to this purchase being transferred to the value of tangible assets, with the associated charge being made to the Statement of Financial Performance. Other items of note include a \$5.6m gain on the settlement of an electricity hedge in 2002 and a \$2.4m expense in the 2003 financial year relating to the aforementioned network acquisition.

In 2002 Unison conducted a distribution policy of paying consumers a discount on their electricity accounts. This practice ceased in 2004 and the company instituted a policy of retaining all earnings for future capital expenditure. Distributions were reintroduced in 2005 by way of dividend to the beneficiaries of the Trust.

| Unison Networks Limited<br>Year ended 31 March   | 2002<br>(\$000) | 2003<br>(\$000) | 2004<br>(\$000) | 2005<br>(\$000) | 2006<br>(\$000) |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Operating revenue</b>                         | <b>32,688</b>   | <b>49,779</b>   | <b>73,747</b>   | <b>91,490</b>   | <b>92,017</b>   |
| Change   |                 | 52.3%           | 48.1%           | 24.1%           | 0.6%            |
| Discounts  | (7,670)         | (3,461)         | (35)            | -               | -               |
| Operating expenses                               | (18,776)        | (24,299)        | (34,145)        | (38,821)        | (42,959)        |
| <b>EBITDA</b>                                    | <b>6,242</b>    | <b>22,019</b>   | <b>39,567</b>   | <b>52,669</b>   | <b>49,058</b>   |
| Change   |                 | 71.7%           | 44.4%           | 24.9%           | -7.4%           |
| Depreciation                                     | (5,558)         | (7,601)         | (11,599)        | (12,748)        | (13,322)        |
| Amortisation                                     | -               | (1,844)         | (4,495)         | (4,495)         | (4,495)         |
| Non-operating (costs) benefits                   | 5,263           | (2,432)         | (113)           | 85              | 40              |
| <b>EBIT</b>                                      | <b>5,947</b>    | <b>10,142</b>   | <b>23,360</b>   | <b>35,511</b>   | <b>31,281</b>   |
| Change   |                 | 70.5%           | 130.3%          | 52.0%           | -11.9%          |
| Net interest                                     | 469             | (5,646)         | (13,604)        | (12,644)        | (12,095)        |
| <b>Operating Earnings Before Tax</b>             | <b>6,416</b>    | <b>4,496</b>    | <b>9,756</b>    | <b>22,867</b>   | <b>19,186</b>   |
| Change   |                 | -29.9%          | 117.0%          | 134.4%          | -16.1%          |
| Restatement of goodwill                          | -               | -               | -               | -               | (60,559)        |
| Income tax                                       | (1,522)         | 165             | 1,485           | (3,612)         | (1,565)         |
| <b>Net Profit After Tax</b>                      | <b>4,894</b>    | <b>4,661</b>    | <b>11,241</b>   | <b>19,255</b>   | <b>(42,938)</b> |
| Change   |                 | -4.8%           | 141.2%          | 71.3%           | -323.0%         |
| Discounts  | 7,670           | 3,461           | 35              | -               | -               |
| Dividends (excluding imputation credits)         | 167             | 167             | 80              | 3,038           | 4,600           |
| <b>Total Distributions</b>                       | <b>7,837</b>    | <b>3,628</b>    | <b>115</b>      | <b>3,038</b>    | <b>4,600</b>    |
| As a percentage of Operating Earnings Before Tax | 122.1%          | 80.7%           | 1.2%            | 13.3%           | 24.0%           |

Source: 2002 - 2006 Annual Reports

## 4. Unison's Performance

### Financial Position

The Statement of Financial Position shown opposite illustrates the marked increase in the size of the company over recent years. Total Assets have increased by 238% over the period reflecting the 2002 network acquisition and the 2006 revaluation of fixed assets. The 2006 revaluation led to a transfer of assets between goodwill and fixed assets when the Taupo and Rotorua Network assets were revalued upward. This transfer has led to the outstanding goodwill reducing significantly to \$14m.

Prior to the network acquisition, debt levels were minimal, but the assumption of \$195m in debt increased Unison's debt to debt-plus-equity ratio to 50.8% in 2003. Recently, the company has been successfully paying down this debt and in conjunction with its strong asset revaluation gains now has a debt to debt-plus-equity ratio of 34.7%. Unison therefore has at this time the headroom to raise capital via debt sources.

| Unison Networks Limited<br>As at 31 March | 2002<br>(\$000) | 2003<br>(\$000) | 2004<br>(\$000) | 2005<br>(\$000) | 2006<br>(\$000) |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Current Assets</b>                     |                 |                 |                 |                 |                 |
| Cash                                      | 7,173           | 1,362           | 2,566           | 1,658           | 614             |
| Receivables                               | 1,952           | 6,833           | 8,061           | 8,854           | 8,855           |
| Inventory                                 | 569             | 887             | 1,467           | 1,418           | 2,386           |
| Electricity price hedging instruments     | -               | -               | -               | -               | -               |
| Taxation refund                           | -               | 996             | 1,171           | 1,686           | 2,921           |
| Investment in associate                   | 113             | 113             | -               | -               | -               |
| Other investments                         | 100             | -               | -               | -               | -               |
| Properties intended for sale              | 1,313           | 1,313           | -               | -               | -               |
| <b>Total Current Assets</b>               | <b>11,220</b>   | <b>11,504</b>   | <b>13,265</b>   | <b>13,616</b>   | <b>14,776</b>   |
| <b>Non-Current Assets</b>                 |                 |                 |                 |                 |                 |
| Property, plant and equipment             | 128,636         | 286,604         | 293,371         | 294,336         | 448,336         |
| Goodwill                                  | -               | 88,044          | 83,549          | 79,054          | 14,000          |
| Investment in associate                   | -               | -               | -               | -               | -               |
| Capital work in progress                  | 2,638           | 7,391           | 3,338           | 9,824           | 5,204           |
| Deferred Tax                              | -               | -               | -               | -               | -               |
| <b>Total Non-Current Assets</b>           | <b>131,274</b>  | <b>382,039</b>  | <b>380,258</b>  | <b>383,214</b>  | <b>467,540</b>  |
| <b>Total Assets</b>                       | <b>142,494</b>  | <b>393,543</b>  | <b>393,523</b>  | <b>396,830</b>  | <b>482,316</b>  |
| Change                                    |                 | 176.2%          | 0.0%            | 0.8%            | 21.5%           |
| <b>Current Liabilities</b>                |                 |                 |                 |                 |                 |
| Accounts payable and accruals             | 3,808           | 7,679           | 6,513           | 8,064           | 14,102          |
| Taxation payable                          | 429             | -               | -               | -               | -               |
| Employee Entitlements                     | 808             | 890             | 973             | 642             | 1,180           |
| <b>Total Current Liabilities</b>          | <b>5,045</b>    | <b>8,569</b>    | <b>7,486</b>    | <b>8,706</b>    | <b>15,282</b>   |
| <b>Non-Current Liabilities</b>            |                 |                 |                 |                 |                 |
| Employee Entitlements                     | 438             | 449             | 665             | 1,121           | 725             |
| Term Debt                                 | 1,000           | 195,500         | 186,600         | 170,600         | 161,600         |
| <b>Total Non-Current Liabilities</b>      | <b>1,438</b>    | <b>195,949</b>  | <b>187,265</b>  | <b>171,721</b>  | <b>162,325</b>  |
| <b>Total Liabilities</b>                  | <b>6,483</b>    | <b>204,518</b>  | <b>194,751</b>  | <b>180,427</b>  | <b>177,607</b>  |
| Change                                    |                 | 3054.7%         | -4.8%           | -7.4%           | -1.6%           |
| <b>Equity</b>                             | <b>136,011</b>  | <b>189,025</b>  | <b>200,186</b>  | <b>216,403</b>  | <b>304,709</b>  |
| Change                                    |                 | 39.0%           | 5.9%            | 8.1%            | 40.8%           |
| <b>Total Liabilities &amp; Equity</b>     | <b>142,494</b>  | <b>393,543</b>  | <b>394,937</b>  | <b>396,830</b>  | <b>482,316</b>  |

Source: Annual Reports 2002 - 2006

## 4. Unison's Performance

### Network Return Metrics

As illustrated in the table opposite, Unison has enjoyed particularly strong growth in returns since 2002, producing a return on equity of 19.8% and a return on investment of 10.7% for the distribution portion of its business in the 2005 financial year. The large Return on Investment for 2004 was the result of revaluation gains from the 2004 ODV valuation of network assets. Returns in the future may be expected to deteriorate as increased maintenance and repair costs exceed any increases in regulated revenues.

### Tariffs

Average unit revenues, measured on a per kWh and per ICP basis, have shown a marked increase over the period as a result of tariff increases in 2002 and 2004 and a change in customer mix following the acquisition. Under the proposed agreement with the Commerce Commission, revenue growth by these metrics in the future is expected to be subdued, with allowable annual increases limited to the Consumer Price Index.

### Costs

Costs, both direct and indirect as measured on a per kWh and a per ICP basis, have shown a steady increase since 2002. This is attributed to the increase in repairs and maintenance required on Unison's aging network assets, an increase in regulatory costs and increased spending to establish new information systems. It is expected that as the network continues to age, costs will continue to increase until the benefits of the planned network capital expenditure program begin to impact on the cost of repairs and maintenance.

| <b>Unison Networks Limited<br/>Performance ratios</b> | <b>2001<br/>%</b> | <b>2002<br/>%</b> | <b>2003<br/>%</b> | <b>2004<br/>%</b> | <b>2005<br/>%</b> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Return on Funds                                       | 2.8               | 0.2               | 5.4               | 10.1              | 13.2              |
| Return on Equity                                      | 2.2               | 0.9               | 6.1               | 20.0              | 19.8              |
| Return on Investment                                  | 14.6              | 0.7               | 14.2              | 33.4              | 10.7              |

Source: PricewaterhouseCoopers ELB Compendiums 2001-2005

| <b>Unison Networks Limited<br/>Electricity Distribution Revenue</b> | <b>2001<br/>%</b> | <b>2002<br/>%</b> | <b>2003<br/>%</b> | <b>2004<br/>%</b> | <b>2005<br/>%</b> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue \$/ICP  | 572               | 520               | 635               | 710               | 870               |
| Revenue cents/kWh   | 4.1               | 3.7               | 4.4               | 4.8               | 5.7               |

Source: PricewaterhouseCoopers ELB Compendiums 2001-2005

| <b>Unison Networks Limited<br/>Costs</b> | <b>2001<br/>%</b> | <b>2002<br/>%</b> | <b>2003<br/>%</b> | <b>2004<br/>%</b> | <b>2005<br/>%</b> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Direct & Indirect Line Costs \$/ICP      | 150               | 135               | 128               | 150               | 176               |
| Direct & Indirect Line Costs cents/kWh   | 1.08              | 0.96              | 0.88              | 1.01              | 1.15              |

Source: PricewaterhouseCoopers ELB Compendiums 2001-2005

## 4. Unison's Performance

### Service Quality

The provision of a high quality of service by Unison is not only of interest to the Trust, which is charged with monitoring Unison on behalf of its beneficiaries, but also to the Commerce Commission, which is concerned with the interests of consumers in general. In addition to the three standard industry measures of supply quality (SAIDI, SAIFI and CAIDI), Unison's Asset Management Plan and Statement of Corporate Intent outline other less-readily measurable service targets. These include:

- A reliable, efficient network;
- Satisfied customers and stakeholders;
- Safe and healthy workplace;
- Motivated and committed employees; and
- The timely provision of financial information to shareholders.

In addition, Unison has in place targets relating to improvements in reliability for its worst feeders, voltage quality and the servicing of all stakeholders. All of these targets are monitored and assessed by the Trust to ensure that Unison provides a high quality service throughout its network.

The table below displays the actual system quality performance and table opposite displays the performance of the Unison network in relation to the quality thresholds set by the Commerce Commission.

|                             | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------|------|------|------|------|------|
| Total SAIDI (minutes)       | 101  | 78   | 199  | 155  | 134  |
| Total SAIFI (interruptions) | 2.1  | 1.5  | 2.3  | 3.2  | 2.9  |
| Total CAIDI (minutes)       | 47   | 54   | 87   | 48   | 47   |

Source: 2002-2006 Annual Reports (2002 = HB only, 2003 = HB and Part R&T, 2004-2006 = HB, R&T)

### SAIDI

The annual duration of supply interruptions (as measured by SAIDI) has shown significant variation over the last five years. Whilst Unison has shown mixed results achieving both its SCI and threshold SAIDI targets, this has exclusively been the result of unplanned outages, particularly in the 2004 and 2005 years during which extreme weather events occurred. Unison has stated that for both of these years had these weather events not occurred it would have complied with its SAIDI threshold targets.

### SAIFI

As with SAIDI, SAIFI (the measure of the annual frequency of supply interruptions) has shown large variations over the last five years. Again, this is partially related to unplanned outages, specifically to the extreme weather events mentioned above.

### CAIDI

Unison's mixed SAIDI and SAIFI results have flowed through into mixed CAIDI results, however, the company has met its CAIDI SCI targets in three of the last five years.

| Assessment Date | SAIDI     |                        | SAIFI     |                              |
|-----------------|-----------|------------------------|-----------|------------------------------|
|                 | Compliant | Breach Value (minutes) | Compliant | Breach Value (interruptions) |
| 31 Mar 2004     | x         | 48.9                   | ✓         | -                            |
| 31 Mar 2005     | x         | 2.61                   | x         | 0.82                         |
| 31 Mar 2006     | ✓         | -                      | x         | 0.43                         |

Source: Threshold Compliance Statements 2004-2006

## 4. Unison's Performance

### Industry Performance Benchmarking

Whilst the standard measures used previously allow for a substantial analysis of Unison's performance, the consideration of these measures in isolation from other ELBs ignores the influences that affect the performance of the distribution sector as a whole. By comparing Unison's performance with its peers, impacts on performance relating to industry-wide issues such as increasing costs, regulation and other external influences outside of Unison's control can be contrasted and the relative underlying performance of the network illustrated.

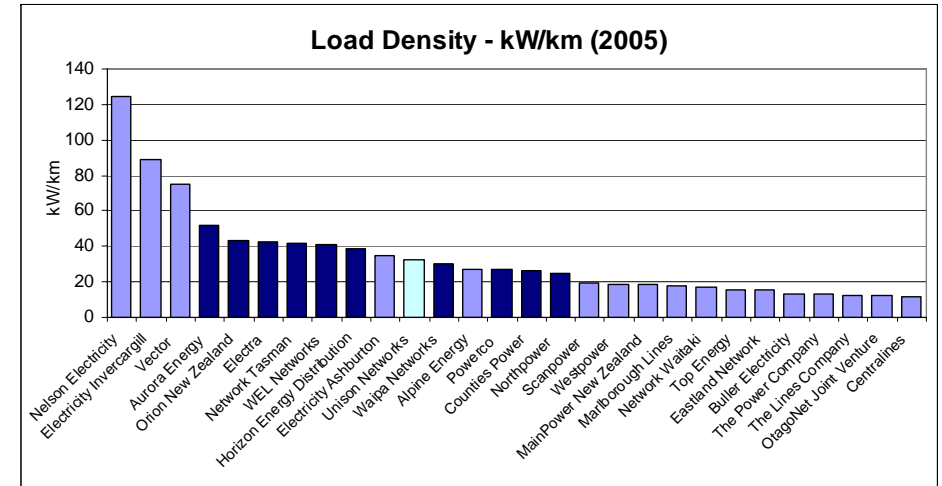
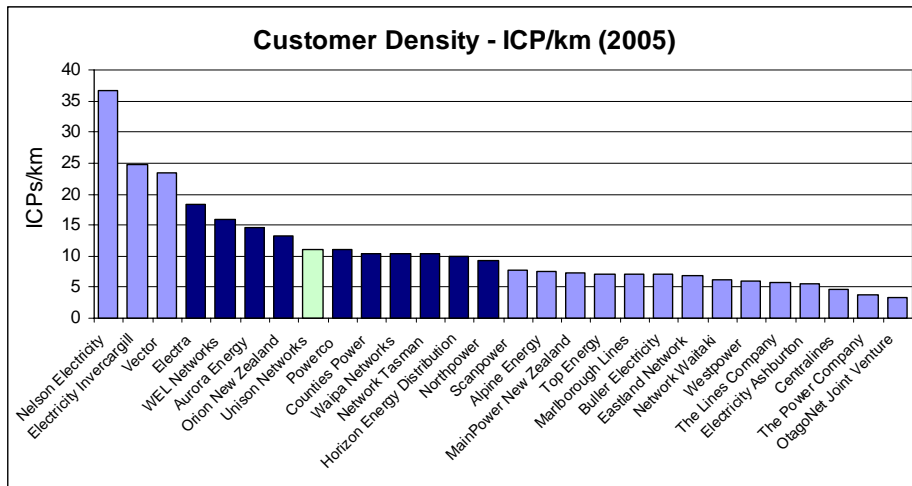
The most recent comparative information available is from the 31 March 2005 ELB disclosures. This data and its 2004 equivalent are used for the purposes of this analysis and summarised in the charts in this section.

It should be noted that care must be taken when comparing ELBs as all line networks have different attributes which influences the various metrics

examined. Topography, climate, growth rates, historical design practices, network configuration and customer density are all factors that affect these measures and as such this analysis only provides a high level indication of performance. The group of ELBs used in this comparison were selected on the basis of both load and customer density. The following ten ELBs, which have 9 to 18 ICPs per circuit kilometre and a load density of 25 to 52 kW per kilometre, are used in the comparative analysis:

- Aurora Energy
- Counties Power
- Electra
- Horizon Energy Distribution
- Network Tasman
- Northpower
- Orion New Zealand
- Powerco
- WEL Networks
- Waipa Networks

Peer group rankings for the following analysis can be found in Appendix C.



## 4. Unison's Performance

### Industry Performance Benchmarking

#### System Reliability

The key service performance indicator for a distribution network is the level of reliability, measured by interruption duration and interruption frequency. Any consideration of reliability should be undertaken over the medium to long term, as investment or under investment in reliability improvements take time to appear in reliability statistics.

In 2004 and 2005 both Unison's SAIDI and SAIFI exceeded the medians of the comparable group. In both years the network was subject to extreme weather events which inflated the reliability measures. If these events are taken into consideration then Unison has been performing in line with its peer group<sup>1</sup>.

| Network      | System Interruption Duration |      |       |      | System Interruption Frequency |      |       |      |
|--------------|------------------------------|------|-------|------|-------------------------------|------|-------|------|
|              | 2004                         |      | 2005  |      | 2004                          |      | 2005  |      |
|              | SAIDI                        | Rank | SAIDI | Rank | SAIFI                         | Rank | SAIFI | Rank |
| Unison       | 201                          | 9    | 155   | 8    | 2.4                           | 6    | 3.2   | 11   |
| Group Median | 119                          | -    | 92    | -    | 2.1                           | -    | 1.9   | -    |

*Rank 1 = lowest interruptions, 11 = highest interruptions*

#### Revenue

The ability of an ELB to produce revenue via its distribution business is a key driver in being able to generate the economic profit that allows for network renewal, debt servicing, expansion and distributions to be made to owners. Revenues generated for distribution services have been estimated by subtracting transmission charges, interest revenue and gains from the sale of assets from line charges, access charges and other income.

<sup>1</sup> Peer group statistics include the impact of extreme events which may have affected these networks.

Revenues are presented as average revenue per unit of electricity delivered and average revenue per unit of installed capacity. These best reflect the demands consumers place on the distribution function, although it is recognised that reliability is an important customer requirement as well.

| Network      | Distribution Revenue per Unit Delivered |      |       |      | Distribution Revenue per Installed Capacity |      |        |      |
|--------------|---|------|-------|------|---|------|--------|------|
|              | 2004                                    |      | 2005  |      | 2004  |      | 2005   |      |
|              | c/kWh                                   | Rank | c/kWh | Rank | \$/kVA                                      | Rank | \$/kVA | Rank |
| Unison       | 3.5                                     | 5    | 4.4   | 8    | 57.2  | 3    | 72.6   | 8    |
| Group Median | 3.7                                     | -    | 3.7   | -    | 68.1  | -    | 69.7   | -    |

*Rank 1 = lowest revenue, 11 = highest revenue*

In 2004, Unison's average unit revenues were less than the median of the comparable group. The price increases in 2005 have resulted in prices which sit slightly above the group median, which is to be expected as other ELBs did not increase their prices to the same extent as Unison over this period.

The movement between 2004 and 2005 for Unison has been compounded due to the additional revenue earned in 2005 from capital contributions which is included for disclosure purposes. In 2004, total capital contribution income equated to 0.33 c/kWh. In 2005 this was 0.51 c/kWh.

Unison's performance in the two key measures that consumers are primarily concerned with, system reliability and price, is in line with its peer group.

## 4. Unison's Performance

### Industry Performance Benchmarking

#### Operating Expenditure

There is no single indicator which provides a definitive comparison of costs across networks, even once networks of similar load and connection densities are grouped together. The three key outputs for distribution networks are capacity (measured in installed capacity or kVA), connectivity (measured in circuit kilometres) and connections (measured in numbers of ICPs). By considering the overall picture provided by these three indicators, we can make a high level assessment of the performance of a network, when compared to its peers.

| Network      | Direct and Indirect Costs per Installed Capacity |      |        |      | Direct and Indirect Costs per Circuit Length |      |       |      | Direct and Indirect Costs per Connection |      |        |      |
|--------------|--|------|--------|------|--|------|-------|------|--|------|--------|------|
|              | 2004   |      | 2005   |      | 2004   |      | 2005  |      | 2004                                     |      | 2005   |      |
|              | \$/kVA   | Rank | \$/kVA | Rank | \$/km  | Rank | \$/km | Rank | \$/ICP                                   | Rank | \$/ICP | Rank |
| Unison       | 16.4   | 1    | 18.8   | 6    | 1677   | 4    | 1962  | 6    | 150                                      | 5    | 176    | 9    |
| Group Median | 18.2   | -    | 18.9   | -    | 1853   | -    | 1961  | -    | 156                                      | -    | 173    | -    |

Rank 1 = lowest cost, 11 = highest cost

In 2004, Unison's costs per kVA were the lowest when compared to its peer group. With the increased operating costs incurred during 2005, overall costs increased to close to the median for the group, with Unison's ranking slipping to 6 out of 11.

Costs per circuit kilometre in 2004 were well below the group median, with Unison achieving an overall ranking of 4. This increased to near the group median in 2005, with the company slipping to a mid-group ranking of 6.

When costs are expressed on a per connection basis the results show a similar pattern. In 2005, Unison's ranking slips from 5 to 9, although in absolute terms the cost of \$176 per ICP is close to the median value of \$173 per ICP.

This analysis demonstrates the increasing costs that Unison is facing. While the company's ranking has deteriorated over the last year, Unison still finds itself comparable to its peers after coming from a lower cost position in 2004.

#### Financial Return

Comparative returns between peer group ELB's utilising both standard financial and per unit of electricity supplied measures allow an evaluation of the respective earning power of each business.

For the 2005 financial year Unison has shown strong return metrics, placing near the top of its peer group in most measures.

| Network      | 2005 Financial Return |      |              |      |      |      |      |      |
|--------------|-----------------------|------|--------------|------|------|------|------|------|
|              | ROI                   |      | ROI Adjusted |      | ROE  |      | ROF  |      |
|              | %                     | Rank | %            | Rank | %    | Rank | %    | Rank |
| Unison       | 10.7                  | 1    | 10.7         | 2    | 19.8 | 1    | 13.2 | 1    |
| Group Median | 5.7                   | -    | 6.9          | -    | 5.3  | -    | 8.4  | -    |

Rank 1 = highest return, 11 = lowest return

As shown in the table above, the financial return measures rank Unison at 1 for Return on Investment (10.7%), Return on Equity (19.8%) and Return on Funds (13.2%). The Adjusted Return on Investment is calculated by adding back any distributions and rebates made to consumers (net of the corporate tax effect). Since the company now pays a dividend rather than a discount or a rebate, adjusting the Return on Investment to account for these discounts/rebates pushes Unison down to a ranking of 2 (10.7%), still well ahead of the group median. In spite of experiencing increased costs, Unison generates strong earnings above those of most of its peer group.

## 4. Unison's Performance

### Industry Performance Benchmarking

Returns as measured on a per kWh basis again demonstrate Unison's strong earnings, ranking the company 1 amongst its peers based on the unadjusted metrics disclosed in the Gazette. Adjusting these metrics to add back the discounts and rebates made by other ELBs results in Unison falling to 3 on the EBIT measure and 5 on the NPAT measure, still well above the median performance of the group.

| Network      | 2005 Financial Returns  |      |       |      |                                    |      |       |      |
|--------------|-------------------------|------|-------|------|------------------------------------|------|-------|------|
|              | As Disclosed in Gazette |      |       |      | Adjusted for Discounts and Rebates |      |       |      |
|              | EBIT                    |      | NPAT  |      | EBIT                               |      | NPAT  |      |
|              | c/kWh                   | Rank | c/kWh | Rank | c/kWh                              | Rank | c/kWh | Rank |
| Unison       | 2.2                     | 1    | 1.2   | 1    | 2.2                                | 3    | 1.2   | 5    |
| Group Median | 1.5                     | -    | 0.8   | -    | 1.8                                | -    | 0.9   | -    |

*Rank 1 = highest return, 11 = lowest return*

### Conclusion

In relation to comparable ELBs, Unison's displays comparable levels of system reliability once extreme weather events are taken into account. Both revenues and returns have increased in 2005, as have costs, albeit from a low base. Overall the performance of Unison is well within the expected range of its peers.

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We have relied on financial information provided to us by Unison. We have not had the opportunity to assess the financial information in detail. We have no reason to believe that the information provided to us is inaccurate or misleading. However, we have not endeavoured to seek any independent confirmation of its reliability, accuracy or completeness. In particular, we do not imply, and it should not be construed, that we have conducted an audit or verified the information provided as the basis for our report. We accept no responsibility or liability for any losses suffered by Unison, HBPCT, or by any other parties as a result of our reliance on the aforementioned financial information or material on which our views are based.

We reserve the right (but will be under no obligation) to review and amend all calculations and opinions included or referred to in this report and, if we consider it necessary, to review our report in the light of any information existing at the date of this report which subsequently becomes known to us.

## Unison's Performance against SCI Targets

| Unison SCI Performance  | 2002   |            |          | 2003   |            |          |                | 2004   |            |          | 2005   |            |          | 2006   |            |          | 2007       | 2008       | 2009   |
|---|--------|------------|----------|--------|------------|----------|----------------|--------|------------|----------|--------|------------|----------|--------|------------|----------|------------|------------|--------|
|   | Actual | SCI Target | Achieved | Actual | SCI Target | Achieved | Rotorua /Taupo | Actual | SCI Target | Achieved | Actual | SCI Target | Achieved | Actual | SCI Target | Achieved | SCI Target | SCI Target |        |
| <b>Financial Measures</b>   |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| Surplus before Taxation, Discounts and Net Interest as a percentage Return on Average Assets Employed               | 9.76%  | 5.48%      | ✓        | 5.08%  | 6.45%      | ×        |                | 5.93%  | 6.21%      | ×        | 9.00%  | 8.70%      | ✓        | 7.10%  | 7.20%      | ×        | 5.40%      | 5.50%      | 5.60%  |
| Net Surplus (after Discounts and Tax) as a percentage Return on Average Shareholder Funds                           | 3.66%  | 0.67%      | ✓        | 2.87%  | 4.16%      | ×        |                | 5.78%  | 3.13%      | ✓        | 9.20%  | 9.00%      | ✓        | 6.80%  | 6.70%      | ✓        | 4.10%      | 4.30%      | 4.40%  |
| Ratio of Shareholder Funds / Total Assets   | 95.45% | 96.80%     | ×        | 48.03% | 41.64%     | ✓        |                | 50.69% | 46.74%     | ✓        | 54.50% | 54.00%     | ✓        | 63.20% | 55.00%     | ✓        | 64.00%     | 65.00%     | 65.00% |
| Trading Surplus (excluding Depreciation) as a percentage of average assets employed                                 |        |            |          | 9.59%  | 9.80%      | ×        |                | 10.07% | 10.31%     | ×        | 13.30% | 12.90%     | ✓        | 11.20% | 11.40%     | ×        | 9.50%      | 9.70%      | 9.80%  |
| Surplus before interest, tax and discounts as a percentage of average assets employed (excluding intangible assets) |        |            |          | 6.07%  | 8.23%      | ×        |                | 7.62%  | 7.96%      | ×        | 11.30% | 11.00%     | ✓        |        |            |          |            |            |        |
| Net Surplus (excluding discounts) as a percentage of average shareholders funds                                     |        |            |          | 5.00%  | 6.68%      | ×        |                | 5.79%  | 5.25%      | ✓        | 9.20%  | 10.40%     | ×        |        |            |          |            |            |        |
| <b>Operating Cost Comparison</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| Direct Costs Per Customer   | 87.21  | 85.21      | ×        | 86.18  | 86.00      | ×        |                | 93.39  | 82.00      | ×        | 116.55 | 99.92      | ×        | 102.52 | 100.98     | ×        | 103.00     | 106.00     | 109.00 |
| Indirect Costs Per Customer   | 52.08  | 42.37      | ×        | 48.31  | 49.00      | ✓        |                | 54.67  | 52.00      | ×        | 56.43  | 56.68      | ✓        | 77.86  | 68.03      | ×        | 73.00      | 74.00      | 75.00  |
| <b>Total Costs Per Customer</b>   |        |            |          | 134.49 | 135.00     | ✓        |                | 148.06 | 134.00     | ×        | 172.98 | 156.60     | ×        | 180.37 | 169.01     | ×        | 176.00     | 180.00     | 184.00 |
| Regulatory Costs  |        |            |          | -3.99  | 0.00       | ✓        |                | -5.60  | -4.83      | ✓        | 4.22   | 6.39       | ✓        | 15.72  | 6.90       | ×        | 9.00       | 9.00       | 9.00   |
| <b>Net Comparable Costs</b>   |        |            |          | 130.50 | 135.00     | ✓        |                | 142.46 | 129.17     | ×        | 177.20 | 162.99     | ×        | 196.10 | 175.91     | ×        | 185.00     | 189.00     | 193.00 |
| <b>Network Performance</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| <b>SAIDI</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| SAIDI Planned   | 31.66  | 58.00      | ✓        | 22.27  | 55.00      | ✓        | 9.08           | 29.90  | 55.00      | ✓        | 25.30  | 40.00      | ✓        | 28.30  | 68.20      | ✓        | 38.20      | 38.20      | 38.20  |
| SAIDI Unplanned   | 69.10  | 68.00      | ×        | 55.73  | 70.00      | ✓        | 62.13          | 169.21 | 70.00      | ×        | 130.00 | 96.00      | ×        | 105.50 | 84.50      | ×        | 114.50     | 114.50     | 114.50 |
| <b>Unison SAIDI</b>   | 100.76 | 126.00     | ✓        | 78.00  | 125.00     | ✓        | 71.21          | 199.11 | 125.00     | ×        | 155.30 | 136.00     | ×        | 133.80 | 152.70     | ✓        | 152.70     | 152.70     | 152.70 |
| SAIDI Transpower  | 0.87   | 0.00       | ×        | 0.00   | 0.00       | ✓        | 0.00           | 0.00   | 0.00       | ✓        | 4.60   | 0.00       | ×        | 0.00   | 0.00       | ✓        |            |            |        |
| <b>Total SAIDI with Transpower</b>  | 101.63 | 126.00     | ✓        | 78.00  | 125.00     | ✓        | 71.21          | 199.11 | 125.00     | ×        | 159.90 | 136.00     | ×        | 133.80 | 152.70     | ✓        |            |            |        |
| <b>SAIFI</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| SAIFI Planned   | 0.25   | 0.50       | ✓        | 0.20   | 0.50       | ✓        | 0.10           | 0.21   | 0.50       | ✓        | 0.20   | 0.40       | ✓        | 0.20   | 0.80       | ✓        | 0.20       | 0.20       | 0.20   |
| SAIFI Unplanned   | 1.89   | 1.90       | ✓        | 1.25   | 2.00       | ✓        | 2.58           | 2.08   | 2.00       | ×        | 3.00   | 2.00       | ×        | 2.70   | 1.60       | ×        | 2.20       | 2.20       | 2.20   |
| <b>Unison SAIFI</b>   | 2.14   | 2.40       | ✓        | 1.45   | 2.50       | ✓        | 2.68           | 2.29   | 2.50       | ✓        | 3.20   | 2.40       | ×        | 2.90   | 2.40       | ×        | 2.40       | 2.40       | 2.40   |
| SAIFI Transpower  | 0.39   | 0.00       | ×        | 0.00   | 0.00       | ✓        | 0.00           | 0.00   | 0.00       | ✓        | 0.20   | 0.00       | ×        | 0.00   | 0.00       | ✓        |            |            |        |
| <b>Total SAIFI with Transpower</b>  | 2.53   | 2.40       | ×        | 1.45   | 2.50       | ✓        | 2.68           | 2.29   | 2.50       | ✓        | 3.40   | 2.40       | ×        | 2.90   | 2.40       | ×        |            |            |        |
| <b>CAIDI</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| CAIDI Planned   | 126.64 | 115.00     | ×        | 111.35 | 110.00     | ×        | 90.80          | 141.71 | 110.00     | ×        | 154.20 | 95.00      | ×        | 159.90 | 89.80      | ×        |            |            |        |
| CAIDI Unplanned   | 36.56  | 36.00      | ×        | 44.58  | 35.00      | ×        | 24.08          | 81.35  | 35.00      | ×        | 42.70  | 48.00      | ✓        | 39.90  | 51.60      | ✓        |            |            |        |
| <b>Unison CAIDI</b>   | 47.00  | 52.00      | ✓        | 53.79  | 50.00      | ×        |                | 86.91  | 50.00      | ×        | 48.40  | 57.00      | ✓        | 47.40  | 63.80      | ✓        |            |            |        |
| CAIDI Transpower  | 2.25   | 0.00       | ×        | 0.00   | 0.00       | ✓        | 0.00           | 0.00   | 0.00       | ✓        | 21.70  | 0.00       | ×        | 2.50   | 0.00       | ×        |            |            |        |
| <b>Total CAIDI with Transpower</b>  |        |            |          |        |            |          | 26.57          | 86.91  | 50.00      | ×        | 46.80  | 57.00      | ✓        | 47.20  | 63.80      | ✓        |            |            |        |
| <b>Faults Per 100km Line</b>  |        |            |          |        |            |          |                |        |            |          |        |            |          |        |            |          |            |            |        |
| Underground   | 11.65  | 14.00      | ✓        | 7.56   | 13.00      | ✓        |                | 10.18  | 13.00      | ✓        | 8.80   | 9.00       | ✓        | 6.60   | 7.50       | ✓        | 7.30       | 7.30       | 7.30   |
| Overhead  | 6.73   | 5.00       | ×        | 7.73   | 6.00       | ×        |                | 12.07  | 6.00       | ×        | 9.40   | 11.00      | ✓        | 9.40   | 11.00      | ✓        | 10.00      | 10.00      | 10.00  |
| <b>Total System</b>   | 7.51   | 7.00       | ×        | 7.70   | 7.11       | ×        |                | 10.31  | 7.11       | ×        | 9.40   | 9.80       | ✓        | 9.10   | 10.60      | ✓        | 9.80       | 9.80       | 9.80   |

Source: 2002-2006 Annual Reports, 2006 SCI

# Comparative Performance

## Peer Group Density Characteristics

|    |                                 | Customer Density<br>2005<br>(ICPs/km) |    |                                 | Load Density<br>2005<br>(kW/km) |
|----|---------------------------------|---------------------------------------|----|---------------------------------|---------------------------------|
| 1  | Northpower                      | 9.2                                   | 1  | Northpower                      | 25.0                            |
| 2  | Horizon Energy Distribution     | 9.9                                   | 2  | Counties Power                  | 26.4                            |
| 3  | Network Tasman                  | 10.4                                  | 3  | Powerco                         | 27.1                            |
| 4  | Waipa Networks                  | 10.5                                  | 4  | Waipa Networks                  | 30.1                            |
| 5  | Counties Power                  | 10.5                                  | 5  | Unison Networks                 | 32.6                            |
| 6  | Powerco                         | 11.1                                  | 6  | Horizon Energy Distribution     | 38.7                            |
| 7  | Unison Networks                 | 11.2                                  | 7  | WEL Networks                    | 40.9                            |
| 8  | Orion New Zealand               | 13.4                                  | 8  | Network Tasman                  | 41.6                            |
| 9  | Aurora Energy                   | 14.6                                  | 9  | Electra                         | 42.2                            |
| 10 | WEL Networks                    | 15.9                                  | 10 | Orion New Zealand               | 43.4                            |
| 11 | Electra                         | 18.4                                  | 11 | Aurora Energy                   | 51.8                            |
|    | Industry Average                | 10.9                                  |    | Industry Average                | 33.4                            |
|    | Industry Median                 | 8.5                                   |    | Industry Median                 | 26.8                            |
|    | <b>Group (excluding Unison)</b> |                                       |    | <b>Group (excluding Unison)</b> |                                 |
|    | Minimum                         | 9.2                                   |    | Minimum                         | 25.0                            |
|    | First Quartile                  | 10.4                                  |    | First Quartile                  | 27.9                            |
|    | Median                          | 10.8                                  |    | Median                          | 39.8                            |
|    | Third Quartile                  | 14.3                                  |    | Third Quartile                  | 42.1                            |
|    | Maximum                         | 18.4                                  |    | Maximum                         | 51.8                            |

Note: All data presentation in Appendix C is sourced from the 2004 and 2005 ELB Gazetted Information Disclosures.

# Comparative Performance

# Appendix C, continued

## Peer Group System Reliability

| Network Planned & Unplanned Interruptions |                                 |               | Network Planned & Unplanned Interruptions |                                 |               | Network Planned & Unplanned Interruptions |                                 |               | Network Planned & Unplanned Interruptions |                                 |               |
|---|---------------------------------|---------------|---|---------------------------------|---------------|---|---------------------------------|---------------|---|---------------------------------|---------------|
|   |                                 | SAIDI<br>2004 |   |                                 | SAIDI<br>2005 |   |                                 | SAIFI<br>2004 |   |                                 | SAIFI<br>2005 |
| 1   | Orion New Zealand               | 42            | 1   | Orion New Zealand               | 52            | 1   | Orion New Zealand               | 0.6           | 1   | Orion New Zealand               | 0.7           |
| 2   | WEL Networks                    | 66            | 2   | Counties Power                  | 60            | 2   | Network Tasman                  | 1.2           | 2   | Aurora Energy                   | 1.5           |
| 3   | Aurora Energy                   | 96            | 3   | Electra                         | 78            | 3   | Horizon Energy Distribution     | 1.3           | 3   | Electra                         | 1.6           |
| 4   | Counties Power                  | 96            | 4   | Aurora Energy                   | 81            | 4   | Aurora Energy                   | 1.6           | 4   | WEL Networks                    | 1.7           |
| 5   | Electra                         | 118           | 5   | WEL Networks                    | 88            | 5   | WEL Networks                    | 1.6           | 5   | Network Tasman                  | 1.7           |
| 6   | Northpower                      | 120           | 6   | Northpower                      | 97            | 6   | Unison Networks                 | 2.4           | 6   | Northpower                      | 2.1           |
| 7   | Network Tasman                  | 121           | 7   | Network Tasman                  | 146           | 7   | Northpower                      | 2.6           | 7   | Counties Power                  | 2.1           |
| 8   | Horizon Energy Distribution     | 133           | 8   | Unison Networks                 | 155           | 8   | Electra                         | 2.7           | 8   | Horizon Energy Distribution     | 2.5           |
| 9   | Unison Networks                 | 201           | 9   | Waipa Networks                  | 162           | 9   | Counties Power                  | 2.7           | 9   | Powerco                         | 2.7           |
| 10  | Waipa Networks                  | 264           | 10  | Powerco                         | 195           | 10  | Powerco                         | 3.4           | 10  | Waipa Networks                  | 3.1           |
| 11  | Powerco                         | 326           | 11  | Horizon Energy Distribution     | 353           | 11  | Waipa Networks                  | 4.4           | 11  | Unison Networks                 | 3.2           |
|   | Industry Average                | 186           |   | Industry Average                | 145           |   | Industry Average                | 2.4           |   | Industry Average                | 2.0           |
|   | Industry Median                 | 169           |   | Industry Median                 | 127           |   | Industry Median                 | 1.8           |   | Industry Median                 | 1.7           |
|   | <b>Group (excluding Unison)</b> |               |   | <b>Group (excluding Unison)</b> |               |   | <b>Group (excluding Unison)</b> |               |   | <b>Group (excluding Unison)</b> |               |
|   | Minimum                         | 42            |   | Minimum                         | 52            |   | Minimum                         | 0.6           |   | Minimum                         | 0.7           |
|   | First Quartile                  | 96            |   | First Quartile                  | 79            |   | First Quartile                  | 1.3           |   | First Quartile                  | 1.6           |
|   | Median                          | 119           |   | Median                          | 92            |   | Median                          | 2.1           |   | Median                          | 1.9           |
|   | Third Quartile                  | 130           |   | Third Quartile                  | 158           |   | Third Quartile                  | 2.7           |   | Third Quartile                  | 2.4           |
|   | Maximum                         | 326           |   | Maximum                         | 353           |   | Maximum                         | 4.4           |   | Maximum                         | 3.1           |

## Comparative Performance

## Appendix C, continued

## Peer Group Distribution Revenue

|    |                                 | Total Distribution Revenue 2004 (cents/kWh) |    |                                 | Total Distribution Revenue 2005 (cents/kWh) |    |                                 | Total Distribution Revenue 2004 (\$/kVA) |    |                                 | Total Distribution Revenue 2005 (\$/kVA) |
|----|---------------------------------|---|----|---------------------------------|---|----|---------------------------------|--|----|---------------------------------|--|
| 1  | Waipa Networks                  | 1.9   | 1  | Waipa Networks                  | 2.0   | 1  | Waipa Networks                  | 34.6                                     | 1  | Waipa Networks                  | 36.0                                     |
| 2  | Northpower                      | 2.3   | 2  | Northpower                      | 2.7   | 2  | Northpower                      | 48.0                                     | 2  | Northpower                      | 55.4                                     |
| 3  | Horizon Energy Distribution     | 2.8   | 3  | Horizon Energy Distribution     | 2.8   | 3  | Unison Networks                 | 57.2                                     | 3  | Electra                         | 59.6                                     |
| 4  | Network Tasman                  | 3.0   | 4  | Network Tasman                  | 3.0   | 4  | Electra                         | 57.6                                     | 4  | Aurora Energy                   | 61.1                                     |
| 5  | Unison Networks                 | 3.5   | 5  | Orion New Zealand               | 3.7   | 5  | Aurora Energy                   | 58.0                                     | 5  | Powerco                         | 69.0                                     |
| 6  | Aurora Energy                   | 3.7   | 6  | Aurora Energy                   | 3.8   | 6  | Powerco                         | 67.4                                     | 6  | Orion New Zealand               | 70.4                                     |
| 7  | Orion New Zealand               | 3.8   | 7  | Electra                         | 4.4   | 7  | Network Tasman                  | 68.8                                     | 7  | Network Tasman                  | 71.5                                     |
| 8  | Electra                         | 4.4   | 8  | Unison Networks                 | 4.4   | 8  | Orion New Zealand               | 71.1                                     | 8  | Unison Networks                 | 72.6                                     |
| 9  | WEL Networks                    | 4.6   | 9  | Powerco                         | 4.5   | 9  | Counties Power                  | 82.5                                     | 9  | WEL Networks                    | 86.8                                     |
| 10 | Powerco                         | 4.6   | 10 | WEL Networks                    | 4.7   | 10 | WEL Networks                    | 82.6                                     | 10 | Horizon Energy Distribution     | 90.5                                     |
| 11 | Counties Power                  | 4.9   | 11 | Counties Power                  | 5.4   | 11 | Horizon Energy Distribution     | 83.3                                     | 11 | Counties Power                  | 91.4                                     |
|    | Industry Average                | 4.0   |    | Industry Average                | 4.2   |    | Industry Average                | 65.7                                     |    | Industry Average                | 70.5                                     |
|    | Industry Median                 | 3.8   |    | Industry Median                 | 4.3   |    | Industry Median                 | 66.0                                     |    | Industry Median                 | 69.7                                     |
|    | <b>Group (excluding Unison)</b> |   |    | <b>Group (excluding Unison)</b> |   |    | <b>Group (excluding Unison)</b> |  |    | <b>Group (excluding Unison)</b> |  |
|    | Minimum                         | 1.9   |    | Minimum                         | 2.0   |    | Minimum                         | 34.6                                     |    | Minimum                         | 36.0                                     |
|    | First Quartile                  | 2.8   |    | First Quartile                  | 2.8   |    | First Quartile                  | 57.7                                     |    | First Quartile                  | 60.0                                     |
|    | Median                          | 3.7   |    | Median                          | 3.7   |    | Median                          | 68.1                                     |    | Median                          | 69.7                                     |
|    | Third Quartile                  | 4.5   |    | Third Quartile                  | 4.5   |    | Third Quartile                  | 79.7                                     |    | Third Quartile                  | 82.9                                     |
|    | Maximum                         | 4.9   |    | Maximum                         | 5.4   |    | Maximum                         | 83.3                                     |    | Maximum                         | 91.4                                     |

Note: Total Distribution revenue is defined as:  
 Total income from line and access charges;  
 plus Total other income;  
 less Transmission charges;  
 less Interest revenue;  
 less Gain on sale of assets.

This provides our best estimate, from the data available, of line and access charges and capital contribution income for all ELBs in a consistent manner. It also by definition includes minor sources of other income, such as rent, but this is not believed to be material for any of the ELBs considered. It is not possible to examine income from line and access charges separately from income from capital contributions because some ELBs bundle these sources of income together in their disclosure information.

## Comparative Performance

## Appendix C, continued

## Peer Group Operating Expenditure

|    |                                 | Direct & Indirect Line Costs 2004 (\$/kVA) |    |                                 | Direct & Indirect Line Costs 2005 (\$/kVA) |    |                                 | Direct & Indirect Line Costs 2004 (\$/km) |    |                                 | Direct & Indirect Line Costs 2005 (\$/km) |
|----|---------------------------------|--|----|---------------------------------|--|----|---------------------------------|---|----|---------------------------------|---|
| 1  | Unison Networks                 | 16.4                                       | 1  | Aurora Energy                   | 16.6                                       | 1  | Horizon Energy Distribution     | 1,350                                     | 1  | Northpower                      | 1,623                                     |
| 2  | Orion New Zealand               | 16.9                                       | 2  | Electra                         | 17.1                                       | 2  | Northpower                      | 1,505                                     | 2  | Waipa Networks                  | 1,675                                     |
| 3  | Aurora Energy                   | 17.2                                       | 3  | Orion New Zealand               | 17.5                                       | 3  | Waipa Networks                  | 1,610                                     | 3  | Horizon Energy Distribution     | 1,727                                     |
| 4  | Horizon Energy Distribution     | 17.3                                       | 4  | WEL Networks                    | 18.7                                       | 4  | Unison Networks                 | 1,677                                     | 4  | Network Tasman                  | 1,818                                     |
| 5  | Waipa Networks                  | 18.0                                       | 5  | Network Tasman                  | 18.7                                       | 5  | Network Tasman                  | 1,700                                     | 5  | Counties Power                  | 1,832                                     |
| 6  | Network Tasman                  | 18.1                                       | 6  | Unison Networks                 | 18.8                                       | 6  | Counties Power                  | 1,807                                     | 6  | Unison Networks                 | 1,962                                     |
| 7  | Powerco                         | 18.4                                       | 7  | Waipa Networks                  | 19.1                                       | 7  | Powerco                         | 1,899                                     | 7  | WEL Networks                    | 2,090                                     |
| 8  | Northpower                      | 19.3                                       | 8  | Northpower                      | 20.9                                       | 8  | Orion New Zealand               | 2,028                                     | 8  | Orion New Zealand               | 2,092                                     |
| 9  | WEL Networks                    | 19.3                                       | 9  | Powerco                         | 21.8                                       | 9  | WEL Networks                    | 2,135                                     | 9  | Powerco                         | 2,147                                     |
| 10 | Electra                         | 19.4                                       | 10 | Counties Power                  | 22.9                                       | 10 | Electra                         | 2,556                                     | 10 | Electra                         | 2,253                                     |
| 11 | Counties Power                  | 23.4                                       | 11 | Horizon Energy Distribution     | 23.8                                       | 11 | Aurora Energy                   | 2,592                                     | 11 | Aurora Energy                   | 2,514                                     |
|    | Industry Average                | 21.7                                       |    | Industry Average                | 21.9                                       |    | Industry Average                | 1,900                                     |    | Industry Average                | 1,960                                     |
|    | Industry Median                 | 18.8                                       |    | Industry Median                 | 19.0                                       |    | Industry Median                 | 1,644                                     |    | Industry Median                 | 1,825                                     |
|    | <b>Group (excluding Unison)</b> |  |    | <b>Group (excluding Unison)</b> |  |    | <b>Group (excluding Unison)</b> |   |    | <b>Group (excluding Unison)</b> |   |
|    | Minimum                         | 16.9                                       |    | Minimum                         | 16.6                                       |    | Minimum                         | 1,350                                     |    | Minimum                         | 1,623                                     |
|    | First Quartile                  | 17.5                                       |    | First Quartile                  | 17.8                                       |    | First Quartile                  | 1,633                                     |    | First Quartile                  | 1,750                                     |
|    | Median                          | 18.2                                       |    | Median                          | 18.9                                       |    | Median                          | 1,853                                     |    | Median                          | 1,961                                     |
|    | Third Quartile                  | 19.3                                       |    | Third Quartile                  | 21.6                                       |    | Third Quartile                  | 2,109                                     |    | Third Quartile                  | 2,134                                     |
|    | Maximum                         | 23.4                                       |    | Maximum                         | 23.8                                       |    | Maximum                         | 2,592                                     |    | Maximum                         | 2,514                                     |

## Comparative Performance

## Appendix C, continued

## Peer Group Operating Expenditure, continued

|    |                                 | Direct & Indirect<br>Line Costs<br>2004<br>(\$/ICP) |    |                                 | Direct & Indirect<br>Line Costs<br>2005<br>(\$/ICP) |
|----|---------------------------------|---|----|---------------------------------|---|
| 1  | WEL Networks                    | 138   | 1  | Electra                         | 122   |
| 2  | Horizon Energy Distribution     | 138   | 2  | WEL Networks                    | 132   |
| 3  | Electra                         | 139   | 3  | Orion New Zealand               | 157   |
| 4  | Waipa Networks                  | 147   | 4  | Waipa Networks                  | 160   |
| 5  | Unison Networks                 | 150   | 5  | Aurora Energy                   | 172   |
| 6  | Orion New Zealand               | 151   | 6  | Network Tasman                  | 174   |
| 7  | Powerco                         | 160   | 7  | Counties Power                  | 175   |
| 8  | Northpower                      | 163   | 8  | Horizon Energy Distribution     | 175   |
| 9  | Network Tasman                  | 165   | 9  | Unison Networks                 | 176   |
| 10 | Aurora Energy                   | 176   | 10 | Northpower                      | 177   |
| 11 | Counties Power                  | 179   | 11 | Powerco                         | 193   |
|    | Industry Average                | 192   |    | Industry Average                | 197   |
|    | Industry Median                 | 167   |    | Industry Median                 | 175   |
|    | <b>Group (excluding Unison)</b> |   |    | <b>Group (excluding Unison)</b> |   |
|    | Minimum                         | 138   |    | Minimum                         | 122   |
|    | First Quartile                  | 141   |    | First Quartile                  | 157   |
|    | Median                          | 156   |    | Median                          | 173   |
|    | Third Quartile                  | 165   |    | Third Quartile                  | 175   |
|    | Maximum                         | 179   |    | Maximum                         | 193   |



## Comparative Performance

## Appendix C, continued

## Peer Group Distribution Earnings

|    |                                 | EBIT<br>cents/kWh |    |                                 | NPAT<br>cents/kWh |    | Adjusted for Discounts and<br>Rebates | EBIT<br>cents/kWh |    | Adjusted for Discounts and<br>Rebates | NPAT<br>cents/kWh |
|----|---------------------------------|-------------------|----|---------------------------------|-------------------|----|---------------------------------------|-------------------|----|---------------------------------------|-------------------|
| 1  | Unison Networks                 | 2.2               | 1  | Unison Networks                 | 1.2               | 1  | WEL Networks                          | 3.0               | 1  | Counties Power                        | 2.0               |
| 2  | Powerco                         | 2.2               | 4  | Powerco                         | 0.8               | 2  | Counties Power                        | 3.0               | 2  | WEL Networks                          | 1.7               |
| 3  | Aurora Energy                   | 1.9               | 9  | Aurora Energy                   | 0.7               | 3  | Unison Networks                       | 2.2               | 3  | Network Tasman                        | 1.2               |
| 4  | WEL Networks                    | 1.6               | 5  | WEL Networks                    | 0.8               | 4  | Powerco                               | 2.2               | 4  | Electra                               | 1.2               |
| 5  | Orion New Zealand               | 1.6               | 6  | Orion New Zealand               | 0.8               | 5  | Electra                               | 2.0               | 5  | Unison Networks                       | 1.2               |
| 6  | Horizon Energy Distribution     | 1.5               | 8  | Horizon Energy Distribution     | 0.7               | 6  | Aurora Energy                         | 1.9               | 6  | Northpower                            | 0.9               |
| 7  | Counties Power                  | 1.4               | 3  | Counties Power                  | 0.9               | 7  | Network Tasman                        | 1.6               | 7  | Powerco                               | 0.8               |
| 8  | Northpower                      | 1.2               | 2  | Northpower                      | 0.9               | 8  | Orion New Zealand                     | 1.6               | 8  | Orion New Zealand                     | 0.8               |
| 9  | Network Tasman                  | 1.0               | 7  | Network Tasman                  | 0.8               | 9  | Horizon Energy Distribution           | 1.5               | 9  | Horizon Energy Distribution           | 0.7               |
| 10 | Waipa Networks                  | 0.5               | 10 | Waipa Networks                  | 0.2               | 10 | Northpower                            | 1.2               | 10 | Aurora Energy                         | 0.7               |
| 11 | Electra                         | 0.2               | 11 | Electra                         | (0.0)             | 11 | Waipa Networks                        | 0.5               | 11 | Waipa Networks                        | 0.2               |
|    | Industry Average                | 1.4               |    | Industry Average                | 0.7               |    | Industry Average                      | 1.9               |    | Industry Average                      | 1.1               |
|    | Industry Median                 | 1.4               |    | Industry Median                 | 0.8               |    | Industry Median                       | 2.0               |    | Industry Median                       | 1.2               |
|    | <b>Group (excluding Unison)</b> |                   |    | <b>Group (excluding Unison)</b> |                   |    | <b>Group (excluding Unison)</b>       |                   |    | <b>Group (excluding Unison)</b>       |                   |
|    | Minimum                         | 0.2               |    | Minimum                         | (0.0)             |    | Minimum                               | 0.5               |    | Minimum                               | 0.2               |
|    | First Quartile                  | 1.1               |    | First Quartile                  | 0.7               |    | First Quartile                        | 1.5               |    | First Quartile                        | 0.7               |
|    | Median                          | 1.5               |    | Median                          | 0.8               |    | Median                                | 1.8               |    | Median                                | 0.9               |
|    | Third Quartile                  | 1.6               |    | Third Quartile                  | 0.8               |    | Third Quartile                        | 2.1               |    | Third Quartile                        | 1.2               |
|    | Maximum                         | 2.2               |    | Maximum                         | 0.9               |    | Maximum                               | 3.0               |    | Maximum                               | 2.0               |

Note: Adjusted return measures are calculated prior to the deduction of customer discounts and rebates.

