

2023 Decennial Ownership Review Report

Issued 13 February 2024

Counties Energy Trust
Level 2, Suite 6
23 Hall Street, Pukekohe 2120
PO Box 580, Pukekohe 2340

www.CountiesEnergyTrust.org.nz

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Historic Overview from 1993 to 2023

Counties Energy Limited (previously Counties Power Limited) (the "Company") succeeded the Franklin Electric Power Board and was incorporated on 10 May 1993.

The Company's main business is that of supplying a network of electricity lines throughout the Franklin District and part of the Papakura District.

At the time of formation, the Company's shares were vested in the trustees of the Counties Power Trust (the "First Trust"). As part of the transitional requirements, a review of the ownership model was conducted in 1995. At that time, the Trustees of the First Trust and the Directors of the Company unanimously agreed that the Company should remain 100% owned by the First Trust and the Trust remain structured as a consumer-owned customer trust.

Following this decision, all of the assets owned by the First Trust (largely being the Trust's shareholdings in the Company) were resettled jointly on the trustees (together, the "Trustees") of the Counties Power Consumer Trust (the "Trust"). This occurred on 14 September 1995.

Under the terms of the Trust's trust deed, dated 14 September 1995 (as amended from time to time) ("Trust Deed"), within 10 years of the above resettlement date (being 14 September 1995) the Trustees are required to prepare a report considering proposals received and the available options for, amongst other things, the future ownership of the Company's shares and the Trust's other assets (the "Trust's Assets"). On 12 March 2003, the Trustees, after due consideration of all reports and submissions received, unanimously concluded that 100% joint ownership by the Trustees remained the appropriate form of ownership of the Trust's Assets.

Pursuant to the Trust Deed, the Trustees have an obligation to initiate repeated reviews every 10 years of the ownership of the Trust's Assets. On 10 December 2013, the Trustees unanimously concluded that 100% ownership by the Trustees remained the appropriate form of ownership of the Trust's Assets. The final report was issued January 2014.

On 17 August 2021, the Trustees, by way of resolution at their meeting, decided to change the name of the Trust to the "Counties Energy Trust" to align itself with the rebranding of the Company. The Company was renamed as "Counties Energy Limited" to capture its vision and strategic direction towards sustainable energy solutions. The Company's structure was otherwise unchanged as a result of that rebranding.

The Trustees resolved, by way of resolution passed at a meeting of the Trustees on 17 November 2021, that Mr Phil Caffyn, Director of Utility Consultants Limited ("UCL"), be engaged to prepare a report for the Trust's 10 year ownership review ("UCL Report"). This review is subject to the "Consumer Consultation Procedure" required under clause 14 of the Trust Deed. The UCL Report was commenced in December 2021 and a final review took place in June 2023. The UCL report was subsequently approved for release to Consumers for consultation in August 2023 in order to implement the Consumer Consultation Procedure under the terms of the Trust Deed and as required for the proposed change to the definition of "Beneficiaries" (as outlined in further detail below).

At the Trustee's meeting held on 5th April 2023, the Trustees considered the proposed change to the definition of "Beneficiaries" contained in the Trust Deed and resolved to consult with Consumers on this matter at the same time as conducting the 10 yearly ownership review.

UCL's Report, dated August 2023 and titled "Independent Advisors Report", was sent to the Directors of the Company seeking their comments. The Directors responded on 25 September 2023 and their view was that the Trustees should retain 100% ownership of the Trust's Assets. (Refer Appendix C)

A separate report was prepared by the Trust, including consideration of the UCL Report, the Trustees' conclusion and the Company's directors' recommendations. This report was made available to the public who were invited to make submissions on the future ownership of the Trust's Assets, including the Company's shares, and the proposed amendment of the term "Beneficiaries" as defined in clause 1 on page 2 of the Trust Deed.

The consumer consultation submission period commenced on 29th September 2023 and ended on 8th December 2023 for the two matters on which the Trustees sought feedback and comments from Consumers, noted as:

- (i) **A proposed change to the definition of the term “Beneficiaries”**, as contained in the Trust Deed, to exclude embedded network consumers and to clarify and simplify the wording (including removing obsolete statutory references). Otherwise, all benefits that are presently enjoyed by present-day Consumers will continue to apply. As set out in clause 13.2(a) of the Trust Deed, any proposed variation to the definition of the term “Consumers” or “Beneficiaries” requires the Trustees to implement the Consumer Consultative Procedure set out in Schedule III of the Trust Deed.
- (ii) **A review of the best option for the future ownership of the Trust’s Assets**, as required every 10 years under clause 14 of the Trust Deed, which requires the Trustees to also implement the Consumer Consultative Procedure set out in Schedule III of the Trust Deed.

Trustees’ Conclusion of the 2023 Ownership Review

After due consideration of:

- (i) the UCL Report prepared by UCL (refer Appendix E);
- (ii) the Trustees’ own evaluation of various issues raised within the UCL Report;
- (iii) the formal view expressed by the Company’s directors on 25 September 2023 (Appendix C);
- (iv) the absence of submissions received from members of the public; and
- (v) legal advice received from Simpson Grierson in relation to the 2023 ownership review, specifically with respect to the requirements of Schedule III of the Trust Deed relating to the absence of any received submissions, that “...further requirements are redundant” (Appendix D).

The Trustees unanimously concluded on 13th February 2024 that 100% ownership by the Trust of the Trust’s Assets (including all of the Company’s shares) remains the most appropriate form of ownership. (Appendix F)

THE SPECIFIC REQUIREMENTS OF THE DEED AND THE ACTIONS TAKEN

The process for the Ownership Review is set out in the Trust Deed.

Clauses 11, 13 & 14 and Schedule III of the Trust Deed sets out the procedures to be followed when amending an applicable term of the Trust Deed and when undertaking the ownership review.

Refer Appendix A, relevant extracts from the Trust Deed.

Once the requirements of clause 14.1 have been satisfied and a report prepared containing certain items, including the Company's directors' views and the Trustees' interim conclusion, the Trustees must carry out Clause 14.2 which reads as follows:

Public Availability:

The Trustees shall make the report available to the public in accordance with Clause 11.

REQUIREMENT (a)

Clause 14.8 (b) of the Deed requires the following:-

Thereafter the Trustees shall initiate further reviews at intervals not greater than ten (10) years after the date of the Trustees' decision on the immediately preceding review, and such reviews shall be completed in accordance with the preceding review provisions of Clauses 14.1 to 14.7.

Clause 14.1 (a)... the Trustees shall prepare a report considering proposals and available options for the future ownership of the shares of the Company and the other assets comprising the Trust Fund. Such report shall contain the following:

- (a) An analysis of the performance of the Trust to the date of the report together with a summary of the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to Consumers.

Action(s) Taken:

UCL was engaged to prepare an in-depth analysis of this requirement.

Costs per beneficiary were considered and divided into the following categories:

1. Comparison between other Trusts of costs per electricity connection.
2. Advantages and disadvantages of Trust ownership.
3. The benefits of Trust ownership to Consumers.
4. Alternative ownership options.
5. The Company's performance under Trust ownership.

When considering the advantages and disadvantages of Trust ownership, the issues commented on were placed into the following broad categories:

1. Consumer benefits.
2. Governance.
3. Industry structure, positioning, and ownership.
4. Operating costs.

Refer Appendix E, Utility Consultants Ltd report, pages 13-19.

REQUIREMENT (b)

Clause 14.1 of the Deed requires the following:-

- (b) An analysis of other ownership options including, without limitation, share and other asset distribution to Consumers, sale of shares and other assets to the public, sale of shares and other assets to institutional investors, compared with retention of ownership by the Trust.

Action(s) Taken:

UCL was engaged to prepare an analysis of this requirement.

The following categories of specific options were considered:

1. Distributing a minority stake to the Consumers with the Trust to retain a controlling stake.
2. Distributing all of the Trust's Assets to the Consumers.
3. Forming a co-operative company, or placing shares into another defined ownership structure.
4. Selling all or some shares to another EDB for cash, or selling the Company's assets.
5. Amalgamating the company with another EDB in return for shares in the surviving amalgamated company.
6. Placing the Trust's Assets into some other defined ownership structure.
7. Quoting or listing the Company's shares on a recognised stock exchange.

Refer Appendix E, Utility Consultants Ltd report, pages 20-25.

REQUIREMENT (c)

Clause 14.1 of the Deed requires the following:-

- (c) a comparison of the Company's performance with the performance of other companies engaged in energy distribution and/or trading;

Action(s) Taken:

UCL was engaged to prepare an analysis of this requirement.

The following measures were selected:

1. Operating costs (OpEx) and Transmission costs (TrEx).
2. Profitability.
3. Supply reliability.

Refer Appendix E, Utility Consultants Ltd report, pages 26-29.

REQUIREMENT (d)

Clause 14.1 of the Deed requires the following:-

- (d) the conclusion of the Trustees 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 Trustees;

Action(s) Taken:

After due consideration of the reports received for the 2023 Ownership Review:

- i) The findings and recommendations set out in the UCL Report;
- ii) The Trustees' evaluation of various issues raised within the UCL Report and other reports;
and
- iii) The formal view expressed by the Company's directors.

The following is an extract from the Trustees' minutes of a meeting held on 19 September 2023, prior to the commencement of the consumer consultation process, at which an interim conclusion was reached.

RESOLUTION	Moved	D W Thomson
	Seconded	A D Eyes
<i>That on the basis of the information so far available to them the Trustees conclude that Trust ownership remains the most appropriate form of ownership of the Company.</i>		
<i>CARRIED UNANIMOUSLY</i>		

This conclusion was formalised after the consumer consultation process that ended on 8 December 2023, by way of resolution on 13 February 2024. Refer to Appendix F.

REQUIREMENT (e)

Clause 14.1 of the Deed requires the following:-

- (e) the matters contained in paragraphs (a), (b), (c) and (d) of Clause 14.6 if a distribution of shares and other assets is recommended;

Action(s) Taken:

This clause does not apply because there was no recommendation to distribute shares and other assets.

REQUIREMENT (f)

Clause 14.1 of the Deed requires the following:-

- (f) a statement of the view of the Directors of the Company 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

Action(s) Taken:

See Appendix C – Letter from the Directors of Counties Energy Limited dated 25 September 2023.

REQUIREMENT (g)

Clause 14.1 of the Deed requires the following:-

- (g) A statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership;

Action(s) Taken:

The Trustees made the UCL Report available to the Public as part of a consultation document for a period of 10 weeks between 29 September 2023 and 8 December 2023.

The Trustees placed formal notices in principal newspapers on 27 and 28 September 2023 directing Consumers to the Trust's website from where the consultation document could be downloaded and advising that a hardcopy of that document was available to be viewed at the Trust's office.

Subsequent newspaper notices advised the Public that a hardcopy was also available to be viewed at Red Office Limited, 217 King Street, Pukekohe.

The above actions satisfied:

- Clause 14.2 Public Availability: The Trustees shall make the report available to the public in accordance with Clause 11.
- Clause 14.3 Consumer Consultative Procedure: The Trustees shall not later than one (1) month after the date of the report, implement the Consumer Consultative Procedure contained in Schedule III of this Deed.

The UCL Report was dated August 2023 and the Consumer Consultative Procedure began in September 2023.

- Clause 11.1 Information to Consumers: For the purpose of complying with any requirement under this Deed to make any document or information available to Consumers, it shall be sufficient for the Trustees to make such document or information available for inspection at any office of the Trust or any office of the Company or at any other place in the District during normal business hours on any business day.

The UCL Report was made available for download from 28 September 2023 to 8 December 2023 from the Trust's website and with hardcopies available to be viewed at the Trust's office (23 Hall St, Pukekohe) and at Red Office (217 King St, Pukekohe) on normal business days during business hours.

- Clause 11.2 Information to Consumers: The Trustees shall give not less than 5 days' notice in a principal newspaper or newspapers circulating in the District of the place at which and the times when such documents or information may be inspected by Consumers.

The first notices to Consumers appeared in principal newspapers:

27th September 2023 – Papakura Courier, and on 28th September 2023 – Franklin County News.

The minimum notice requirements of the Trust Deed to advise Consumers was exceeded as the Trustees had noted there were no submissions received during the 2013 consumer consultation process. The submission period was extended to 10 weeks in 2023, compared with 4 weeks in 2013.

Refer Appendix B for advertising and notices inviting submissions

In addition, the requirements of Schedule III were satisfied as indicated.

SCHEDULE III CONSUMER CONSULTATIVE PROCEDURE

In respect of any provision of this Deed which requires the Trustees to implement a Consumer Consultative Procedure, the Trustees shall:

- (a) Place notice of the proposal before a meeting of the Trustees.
This was presented to the Trustees at their meeting on 19 September 2023.
- (b) Give notice of the proposal to Consumers in accordance with Clause 11 of the Deed.
Satisfied, as noted above (page 7).
- (c) In every notice given under paragraph (b) of this schedule, specify a period within which Consumers interested in the proposal may make submissions on the proposal to the Trustees.
Satisfied, as noted in Appendix B.
- (d) Ensure that any Consumer who makes written submissions on the proposal within the period specified in the notice given under paragraph (b) of this Schedule is given a reasonable opportunity to be heard by the Trustees.
Not applicable, as there were no submissions received from Consumers. See Appendix D.
- (e) Ensure that every meeting at which submissions are heard are open to Consumers.
Not applicable, as there were no submissions received from Consumers. See Appendix D.
- (f) Make all written submissions on the proposal available to Consumers.
Not applicable, as there were no submissions received from Consumers. See Appendix D.

Refer Appendix B for advertising and notices inviting submissions

The period specified pursuant to paragraph (c) above shall be not less than one month and no more than three months.

Satisfied, as the submission period was from 29 September 2023 to 8 December 2023, being a period of 10 weeks. (The 2013 ownership review submission period was from 24 September 2013 to 24 October 2013).

Action(s) Taken:- At a meeting of the Trustees held on 13 February 2024, a resolution was passed to record the Trustees' final conclusion that 100% Trust ownership of the Trust's Assets is the preferred ownership option.

Refer Appendix F for the final conclusion of Trustees and unanimous resolution passed on 13 February 2024.
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Clause 14.1 Action(s) Taken on requirement (g)

(g) A statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership;

No member of the public made a submission on the ownership review. Accordingly, the Trustees do not have an obligation to make a statement under clause 14.1(g) of the Trust Deed.

REQUIREMENT (h)

Clause 14.1 of the Deed requires the following:-

- (h) a summary of the professional advice (if any) obtained in respect of the preparation of the report;

Action(s) Taken**2023 Ownership Review**

Robert McLean, Partner, Simpson Grierson, provided advice as to:

- o the "Historic Overview" information provided to Consumers, which was reviewed and updated for accuracy and relevancy;
- o the consumer consultation process and the contents of the report submitted for consultation; and
- o the procedure to follow in the absence of any received submissions (refer Appendix D).

Christine Southey of Law & Policy was approached seeking advice as to:

- o the amendment of the definition of "Beneficiaries" as it appears in clause 1 on page 2 of the Trust Deed (noting that the Trustees consulted with Consumers on this definition at the same time as they consulted Consumers on ownership options for the Company's shares and the other assets comprising the Trust Fund).

REQUIREMENT (i)

Clause 14.1 of the Deed requires the following:-

- (f) A statement of the extent to which any proposals require a modification of the Company's Statement of Corporate Intent;

Action(s) Taken

No modification is required to the Company's Statement of Corporate Intent.

SIGNED by CHRISTINE PHYLLIS RUPP

in the presence of:



Signature of Witness



Signature of **CHRISTINE PHYLLIS RUPP**

Chair – Counties Energy Trust

Miranda Lydia Smith
Solicitor

Name of Witness
Auckland

Occupation of Witness

Town of Residence

13/02/24

SIGNED by ALAN DOUGLAS EYES

in the presence of:



Signature of Witness



Signature of ALAN DOUGLAS EYES

Trustee – Counties Energy Trust

Name of Witness

Miranda Lydia Smith
Solicitor
Auckland

Occupation of Witness

Town of Residence

SIGNED by MEGAN ELLEN MATTHEWS

in the presence of:



Signature of Witness



Signature of MEGAN ELLEN MATTHEWS

Trustee – Counties Energy Trust

Name of Witness

Miranda Lydia Smith
Solicitor
Auckland

Occupation of Witness


Town of Residence

SIGNED by **MICHAEL JOHN MARR**

in the presence of:



Signature of Witness


Signature of **MICHAEL JOHN MARR**
Trustee – Counties Energy Trust

Name of Witness **Miranda Lydia Smith**
Solicitor
Auckland

Occupation of Witness


Town of Residence

SIGNED by **DONALD WILLIAM THOMSON**

in the presence of:



Signature of Witness


Signature of **DONALD WILLIAM THOMSON**
Trustee – Counties Energy Trust

Name of Witness **Miranda Lydia Smith**
Solicitor
Auckland

Occupation of Witness

Town of Residence

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APPENDIX A

Extracts from Trust Deed OWNERSHIP REVIEW PROCEDURE

14.1 Report: Within ten (10) years of the Resettlement Date the Trustees shall prepare a report considering proposals and available options for the future ownership of the shares of the Company and the other assets comprising the Trust Fund. Such report shall contain the following:

- (a) an analysis of the performance of the Trust to the date of the report together with a summary of the advantages and disadvantages of Trust ownership and the benefits or otherwise of such ownership to Consumers;
- (b) an analysis of other ownership options including, without limitation, share and other asset distribution to Consumers, sale of Shares and other assets to the public, sale of Shares and other assets to institutional investors, compared with retention of ownership of the Trust;
- (c) a comparison of the Company's performance with the performance of other companies engaged in energy distribution and/or trading;
- (d) the conclusion of the Trustees 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 Trustees;
- (e) the matters contained in paragraphs (a), (b), (c) and (d) of Clause 14.6 if a distribution of shares and other assets is recommended;
- (f) a statement of the view of the Directors of the Company 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;
- (g) a statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership;
- (h) a summary of the professional advice (if any) obtained in respect of the preparation of the report;
- (i) a statement of the extent to which any proposals require a modification of the Company's Statement of Corporate Intent.

14.2 Public Availability: The Trustees shall make the report available to the public in accordance with Clause 11.

14.3 Consumer Consultative Procedure: The Trustees shall not later than one (1) month after the date of the report, implement the Consumer Consultative Procedure contained in Schedule III of this Deed.

APPENDIX A

Extracts from Trust Deed

OWNERSHIP REVIEW PROCEDURE

- 14.4 Decision:** Following completion of the Consumer Consultative Procedure, and in any event not later than eleven (11) years after the Resettlement Date, the Trustees shall decide (subject to Clause 14.8) whether to:
- (a) retain the Shares and other assets of the Trust; or
 - (b) dispose of a portion of the Shares and other assets and retain the remainder in the Trust; or
 - (c) dispose of all the Shares and other assets; or
 - (d) dispose of the Shares in whole or in part in conjunction with or separately from any other part of the Trust Fund;
- 14.5 Notification of Decision:** The Trustees shall notify the public in accordance with Clause 11 of the decision made in Clause 14.4.

A further extract:

- 14.8 Subsequent Reviews:**
If following the initial review all or any of the Trust Fund is retained by the Trustees, the following provisions shall apply:
- (a) Within ten (10) years of the decision of the Trustees on the initial review (referred to in Clause 14.4) the Trustees shall initiate a further review, and such review shall be completed in accordance with the preceding review provisions contained within Clauses 14.1 to 14.7.

A further extract

11. INFORMATION TO CONSUMERS

11.1 For the purpose of complying with any requirement under this Deed to make any document or information available to Consumers, it shall be sufficient for the Trustees to make such document or information available for inspection at any office of the Trust or any office of the Company or at any other place in the District during normal business hours on any business day.

11.2 The Trustees shall give not less than 5 days notice in a principal newspaper or newspapers circulating in the District of the place at which and the times when such documents or information may be inspected by Consumers.

APPENDIX A

Extracts from Trust Deed OWNERSHIP REVIEW PROCEDURE

A further extract

SCHEDULE III

CONSUMER CONSULTATIVE PROCEDURE

In respect of any provision of this Deed which requires the Trustees to implement a Consumer Consultative Procedure, the Trustees shall:

- (a) Place notice of the proposal before a meeting of the Trustees.
- (b) Give notice of the proposal to Consumers in accordance with Clause 11 of the Deed.
- (c) In every notice given under paragraph (b) of this schedule, specify a period within which Consumers interested in the proposal may make submissions on the proposal to the Trustees.
- (d) Ensure that any Consumer who makes written submissions on the proposal within the period specified in the notice given under paragraph (b) of this Schedule is given a reasonable opportunity to be heard by the Trustees.
- (e) Ensure that every meeting at which submissions are heard are open to Consumers.
- (f) Make all written submissions on the proposal available to Consumers.

The period specified pursuant to paragraph (c) above shall be not less than one month and no more than three months

APPENDIX B

Advertising and Notices Inviting Submissions

Below is a proof of the first notices to Consumers which were published on:

- Wednesday 27th September 2023 – Papakura Courier
- Thursday 28th September 2023 – Franklin County News

CountiesEnergyTrust

OWNERSHIP REVIEW SUBMISSIONS INVITED

CLOSING 4PM, FRIDAY 8TH DECEMBER 2023

Written submissions are invited from Consumers connected to the Counties Energy network.

The Trustees of Counties Energy Trust are conducting a 10 yearly review of the best form of ownership of the shares of Counties Energy Limited, in accordance with the Trust Deed.

A report has been prepared for Consumers and this includes the Trustees' view as of 19th September 2023 that Trustee ownership is still the most appropriate form of ownership of the shares in Counties Energy Limited.

From Friday 30th September 2023, the Trust Deed and the Ownership Review report will be available for inspection at the Trust's office at 6/23 Hall Street, Pukekohe, or to download from the Trust's website.

All submissions received will be made public, via the website, as they are received. Anyone who makes a written submission will have the opportunity to appear in person to speak in support of that submission at a public hearing to be conducted by the Trustees. Notice of such hearings to be advised at a later date.

After the closing date, and once all submissions have been heard, the Trustees will make their final decision as to the future ownership of the shares in Counties Energy Limited.

All submissions to:
Secretary@CountiesEnergyTrust.org.nz

Or by post to:
The Secretary, Counties Energy Trust,
PO Box 580, Pukekohe 2340.
www.CountiesEnergyTrust.org.nz

Subsequent Notices were published on:

- Wednesdays 18th October, 1st & 15th November 2023 – Papakura Courier
- Thursdays 19th October, 2nd & 16th November 2023 – Franklin County News

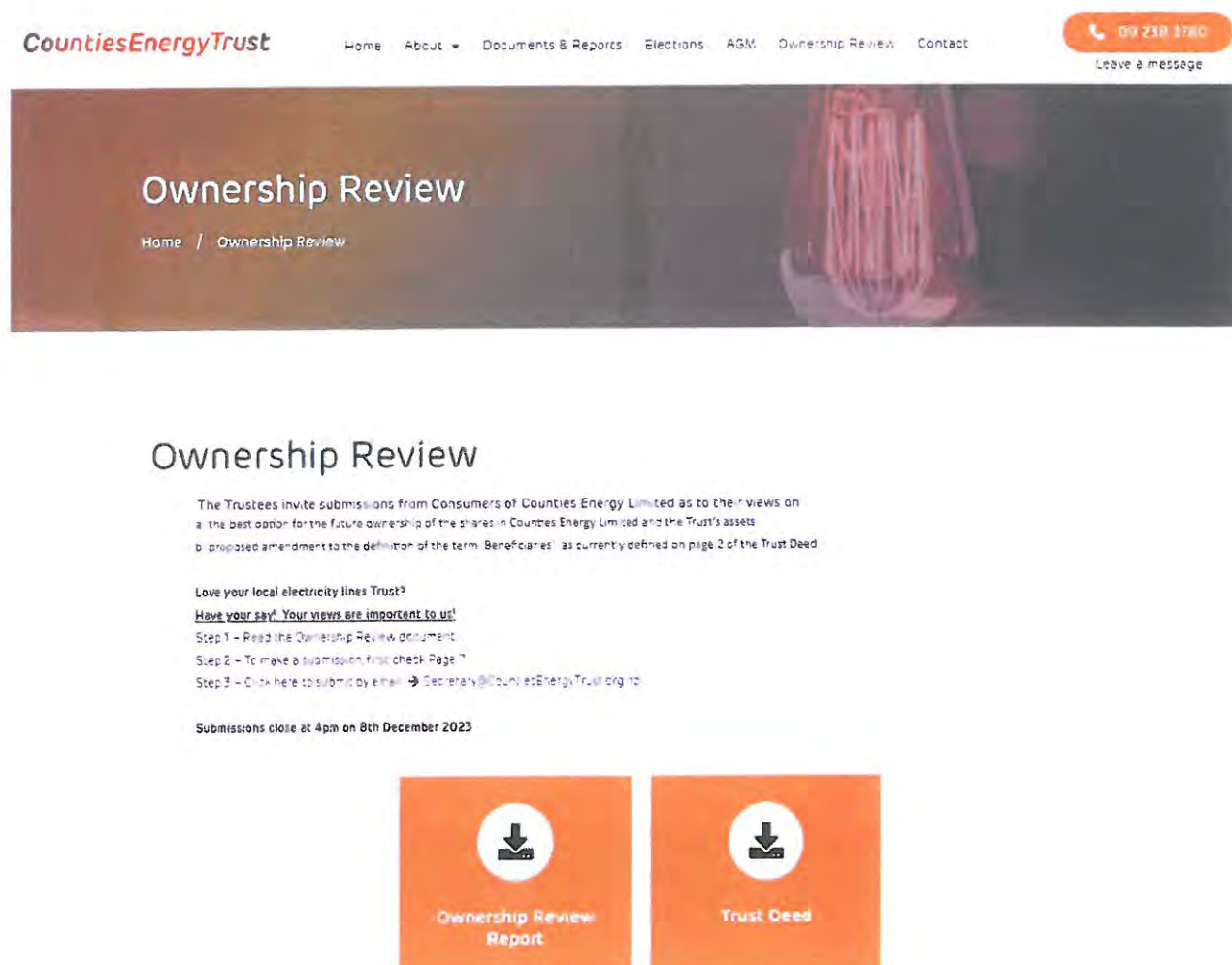
November issues of local newspapers:

- Ararimu Courier
- Hunua Informer
- Karaka Kronicle
- Valley Voice
- West Franklin Breeze

APPENDIX B

Advertising and Notices Inviting Submissions

The Trust's Website "ownership review" tab was available to the Public by 5pm on 28th September 2023 for the consultative period commencing 29th September.



Additionally

- ❖ Counties Energy Limited assisted by placing the Trust's ownership review information in their annual discount newsletter to Consumers as a 'wrap around' the Franklin County News and was delivered to approximately 45,000 letterboxes. The information was also emailed to approximately 36,000 Consumers via the Company's communication app.
- ❖ Weekly notices and reminders were placed for Saturday mornings with "Neighbourly" during October and November with whom the Trust can reach 18 neighbourhoods in the Counties Energy lines district. While the banner feature was utilised, a link took the reader to the "ownership review" tab inside the Trust's website, and the formal notice inviting submissions was also attached to the banner.

APPENDIX C



25 September 2023

The Trustees of Counties Energy Trust
PO Box 580
Pukekohe

Dear Trustees

Re: 10 Year Ownership Review

It is with pleasure that we inform you that the Company's Directors have considered the available options for the future ownership of the Company and are unanimous in their view that the best form of future ownership for the shares of the Company is continued 100% ownership by the Trust.

In reaching this decision, the Directors and key Managers have had the opportunity to review and comment on an independent advisor's report prepared by Utility Consultants Ltd for the Counties Energy Trust ownership review.

It is our recommendation that a resolution be passed at the next Board meeting to the effect that the Company's Directors have fully considered the independent advisor's report prepared by Utility Consultants Ltd, dated August 2023, and are unanimous in their view that the best form of future ownership for the shares of the Company is continued 100% ownership by the Trust.

This letter is provided in fulfilment of Clause 14.1(f) of the Trust Deed and is to be included in the Trustees ownership review report.

Robert K. Watson
Chair

Hamish W. Stevens
Deputy Chair



9 February 2024

Partner Reference
R F McLean - Auckland

The Trustees
Counties Energy Trust
P O Box 580
PUKEKOHE 2340

Writer's Details
Direct Dial: +64-9-977 5077
Email: robert.mclean@simpsongrierson.com

Sent by Email

For: Sheena O'Flaherty

2023 Ownership Review – Counties Energy Trust

1. Thank you for your email dated 2 February 2024.
2. You have asked us to confirm certain aspects of the advice provided by Kevin Jaffe on 20 November 2013 in respect of the 2013 Ownership Review, and subsequently followed by the trustees (**Trustees**) of the Counties Energy Trust (**Trust**) in respect of the 2023 Ownership Review. Specifically, confirmation of the process that the Trustees should follow if the Trustees do not receive any public submissions as part of the 2023 Ownership Review.

Ownership Review - No Submissions Received


3. We understand that the Trustees have undertaken an ownership review as required under clause 14 of the Trust's trust deed (**Trust Deed**). Accordingly, the Trustees have:
 - (a) procured the preparation of an ownership report, which has been made available to the public in accordance with the requirements of clause 14.2 of the Trust Deed; and
 - (b) implemented the consumer consultative procedure in accordance with the requirements of clause 14.3 and Schedule III of the Trust Deed, with public submissions being invited.
4. We understand from your email that, as at the date of this letter, the Trustees did not receive any public submissions on the report within the required timeframe.
5. The consumer consultative procedure in Schedule III of the Trust Deed sets out that public notice must be given and must specify the period within which consumers may make submissions (we understand the consultation period commenced on 29 September 2023 and closed on 8 December 2023).

Advice re ownership review 2023(40398140.1)

Auckland: Level 27, 88 Shortland Street, Private Bag 92518, Auckland 1141, New Zealand. T +64 9 351 2222
Wellington: Level 5, 40 Bowen Street, PO Box 2402, Wellington 6140, New Zealand. T +64 4 499 4599
Christchurch: Level 2, 151 Cambridge Terrace, PO Box 804, Christchurch 8140, New Zealand. T +64 3 355 5214
www.simpsongrierson.com

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6. Schedule III goes on to set out requirements regarding submissions, including that any consumer who makes a written submission is to be given a reasonable opportunity to be heard. In addition, submissions received are to be made available to consumers. As no submissions have been received, these further requirements are redundant and will not apply to the 2023 ownership review.
7. The Trust Deed also requires the Trustees to:
- (a) pursuant to clause 14.4, decide whether to retain or to dispose of the Company's shares and any other assets of the Trust; and
 - (b) pursuant to clause 14.5, notify the public of the Trustees' decision.
8. We understand that a final report has now, or will shortly be, completed setting out the procedure followed since the report was publicised, the outcome, the Trustees' decision, and that this report will be publicly notified.
14. Please let us know if you have any queries or would like to discuss the above.

Yours faithfully
SIMPSON GRIERSON


Robert McLean
Partner

Energy Reimagined



**Independent advisors report prepared for
the Counties Energy Trust Ownership Review**

by Utility Consultants Ltd
www.utilityconsultants.co.nz

Completed December 2021 – August 2022
Confirmed for release – August 2023

Summary at a glance

- Energy Reimagined is the exciting journey that Counties Energy Ltd (the Company) is on to provide innovative, low-emission energy solutions to the rapidly changing Papakura, Franklin and North Waikato world and beyond.
- This report has been prepared by an independent advisor (Utility Consultants Ltd) to assist the Counties Energy Trust to fulfil the Ownership Review obligations set out in the Trust Deed.
- **The principal conclusion of this report is that continued 100% ownership of the equity securities in Counties Energy Ltd by the Counties Energy Trust is the best way to continue providing and maintaining a safe, efficient, reliable and cost-effective electricity distribution network.**
- Alternatives to continued 100% Trust ownership would almost certainly involve the following two features...
 - Regulation of Counties Energy Ltd total line revenue by the Commerce Commission under the third default price-quality path regulatory regime (referred to as DPP3 in the industry). This would set a maximum allowable annual revenue.
 - The non-beneficial owner charging the maximum allowable annual revenue under the DPP3.

Counties Energy estimates that its total line revenue over the 10 years of the DPP1 and DPP2 revenue periods was about \$1.35m per year less than if it charged the allowable revenue. That \$1.35m per year stays in the Papakura, Franklin and North Waikato communities rather than passing to a non-beneficial owner.

- Additional conclusions are:
 - That the Company's vision of Energy Reimagined is progressing very well, and can be considered a national leader. This repositioning of the Company to capture emerging energy business opportunities will serve Beneficiaries well once the costs of that repositioning are complete.
 - That the Trust is an interested and active shareholder, appropriately exercising its oversight responsibilities of the Company and diligently engaging on industry issues and concerns for what is one of the fastest growing network businesses in the Country. This has led to the Trust's annual operating costs per Beneficiary being at the high end of the peer cohort, which Beneficiaries should view as an investment in future-proofing the Company.
 - That the Company's costs and performance are around the middle of the cohort examined, providing Beneficiaries with an appropriate balance of reliability, price and emissions.

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1. Introduction

1.1 Overview of Trust

The Counties Energy Trust¹ ("Trust") is an energy trust formed in 1993 to hold the equity securities ("Shares") in Counties Energy Ltd ("Company"). Each of the 5 Trustees of the Trust stands possessed of 3,000,000 Shares in the Company² on behalf of the Company's 39,000 connected electricity consumers ("Beneficiaries") who represent 44,500 electricity connections³.

The Trust's affairs and the Trustees conduct are governed by a Trust Deed⁴ ("Deed") that was reviewed in March 2015.

1.2 Trust relationship to Company

The Trustees administration of the Trust is completely separate from the Directors administration of the Company. A key role of the Trustees is to appoint commercially experienced Directors⁵, who in turn are responsible for the Governance of the Company⁶. Those Directors are appointed (or re-appointed) by a process that considers:

- The skill sets required by the Directors.
- The performance of the Directors being considered for re-appointment.

For the avoidance of doubt, the Trustees do not "run the Company" and their role in the Company's affairs is limited to *inter alia* approving or rejecting the Company's Statement of Corporate Intent.

However the Directors consult with the Trustees over the strategic direction of the Company including through a range of documents such as the strategic plan, the asset management plan, budgets and performance reports (quarterly, half-yearly and annually).

1.3 Purpose of this report

The purpose of this report is to:

- Primarily provide independent advice to the Trustees in regard to the matters set out at clauses 14.1(a), 14.1(b) and 14.1(c) of the Trust Deed.
- Secondly, comment on any other related matters as the Trustees may require.

¹ <https://countiesenergytrust.org.nz/>

²

<https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/580531/shareholdings?backurl=H4sIAAAAAAAC2LQQ7CMAwEfSMLh77AQpy49FCpfMCKV6USdYltiOX3hIrbzGp2qzBp1yOyroPcrDI5%2FUoAvJgFTZl0SsiGnuMJL0pl6Y%2FvEBhW08sH9YMWVjxorCGdNb9MYSOt3n%2B%2Bxocze9WWj3nL%2B5bH0l%2FAAAA>

³ Some Beneficiaries have multiple Connections. The terms "Beneficiaries" and "Connections" have separate and distinct meanings for the purposes of this report

⁴ https://www.countiespowertrust.org.nz/assets/TrustDeed_18Mar_2015.pdf

⁵ <https://www.countiesenergy.co.nz/about/content/board-executives>

⁶ And in turn, a key role of the Directors is to appoint a Chief Executive.

1.4 Deed requirements for Ownership Review

The requirements of the Ownership Review are as follows...

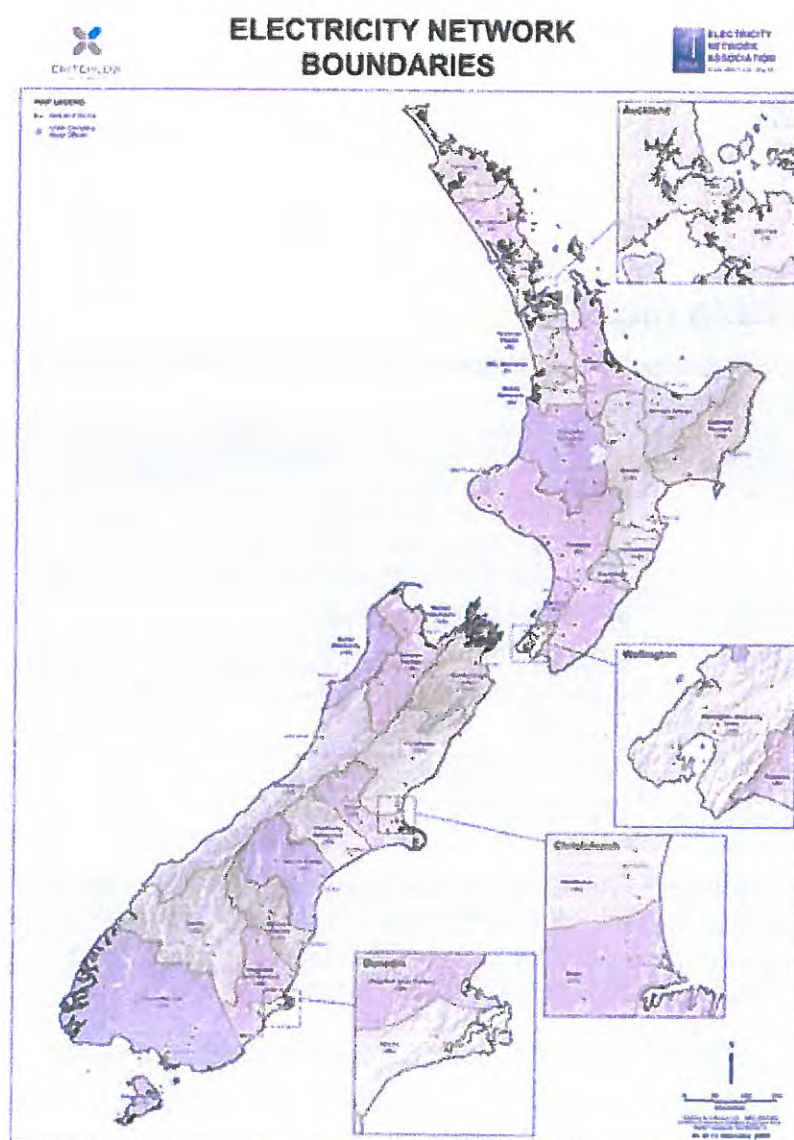
Deed ref.	Deed requirement	Report chapter
14.1(a)	An analysis of the performance of the Trust.	4.
14.1(a)	A summary of the advantages and disadvantages of Trust ownership.	5.
14.1(a)	A summary of the benefits or otherwise of such ownership to Consumers.	6.
14.1(b)	An analysis of other ownership options.	7.
14.1(c)	A comparison of the Company's performance.	8.

2. The electricity distribution sector

The Deed does not contain any specific requirement for the Trustees to consider the electricity distribution industry at large, however this has been included to provide some context for the analysis provided in subsequent sections.

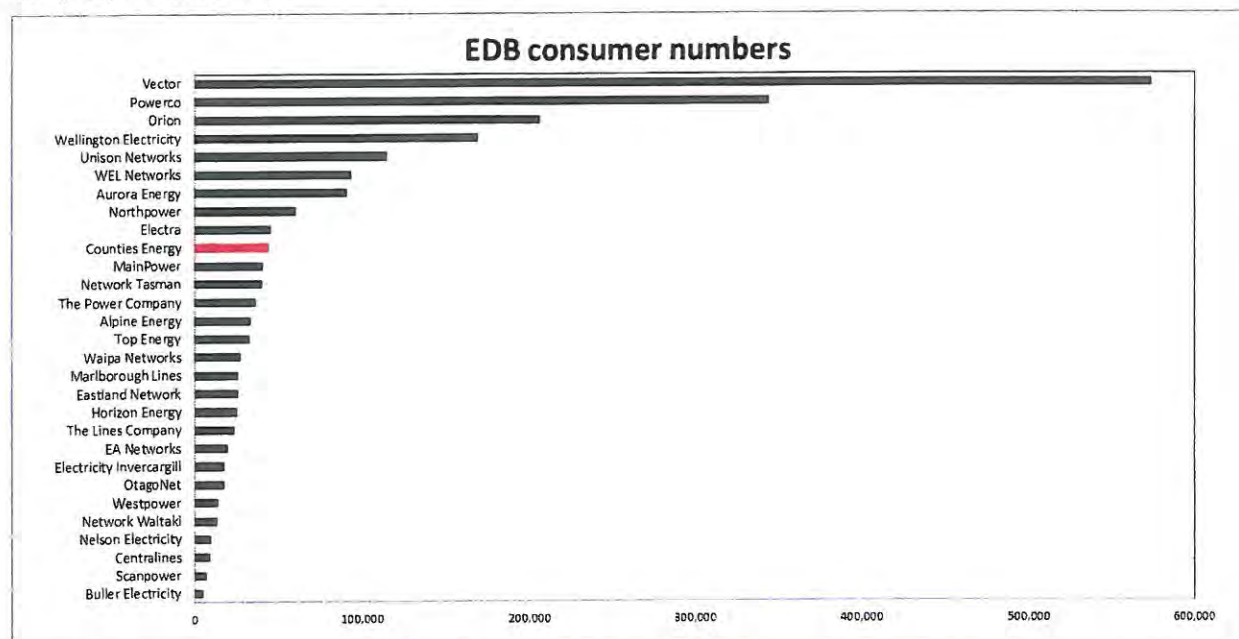
2.1 Distribution sector structure

The NZ electricity distribution sector is comprised of 29 separate electricity distribution companies ("EDB's") as of December 2021, as shown below⁷.



⁷ Provided by the Electricity Networks Association.

The size of these companies varies substantially with the largest company (Vector) having 573,800 connected consumers⁸ and the smallest (Buller Electricity) having 4,700. This is shown below, with the Company shown in red:



2.3 Ownership models

The distribution sector includes a range of EDB ownership models, as shown below. By number, most EDBs are fully owned by consumer trusts⁹:

Ownership model	Distribution businesses
Full (100%) ownership by Trust	Top Energy, Northpower, Counties Power, WEL Networks, Waipa Networks, The Lines Company, Horizon Energy, Eastland Network ¹⁰ , Unison Networks, Centralines, ScanPower, Electra, Marlborough Lines, Network Tasman, Buller Electricity, Westpower, MainPower, Network Waitaki, The Power Company.
Part ownership by Trust	Vector (75% owned by Entrust).
Owned by councils	Orion, Alpine Energy (majority owned by 3 councils, part ownership by a Trust), Electricity Ashburton (council holds non-voting shares) ¹¹ , Aurora Energy, Electricity Invercargill.
Owned by other EDBs	Nelson Electricity, OtagoNet JV
Owned by private companies	Powerco, Wellington Electricity

It has been observed that full ownership by a (consumer) Trust provides a high degree of alignment between surpluses from the EDB and the EDB's investment in a reliable electricity supply, certainly higher alignment than in non-beneficially owned EDBs where there is a tension between investing in supply reliability and paying dividends to non-beneficial owners.

⁸ Connected consumers as of 31st March 2020, taken from Commerce Commission compiled disclosure information.

⁹ A consumer trust is a trust in which individual connected consumers are the income and capital beneficiaries, whilst a community trust is a trust in which the community at large benefits from the income and capital.

¹⁰ Eastland Network is owned by the Trust Tairāwhiti, of which the Gisborne District Council is the ultimate capital beneficiary.

¹¹ <http://www.electricityashburton.co.nz/About/Ownership.asp>

2.4 Sector regulation

The EDB sector is currently heavily regulated, principally by the Commerce Commission under various mandates stemming from Part 4 of the Commerce Act 1986, but also by other agencies such as the Electricity Authority. Currently, EDBs that meet 4 criteria¹² that have the practical effect of beneficial ownership¹³ are exempt from revenue control. Those EDBs that do not meet all 4 of those criteria continue to have their revenues and supply reliability constrained by a Default Price Path¹⁴ (DPP), with the option of applying for a Customised Price Path (CPP) if that EDB believes that a DPP cannot adequately fund its activities and maintain investor interest.

The Company is currently exempt from the DPP as it meets all 4 of the criteria¹⁵, however s54h of the Commerce Act does provide for an EDB to lose its exempt status under certain circumstances¹⁶.

2.5 Sector technology changes

The electricity distribution sector is currently undergoing the following unprecedented changes...

- Digitalisation, robotics, artificial intelligence and analytics are significantly changing engineering and commercial practices (which is acknowledged to be common to most if not all businesses in general).
- Rapidly changing technologies and declining costs are seeing the insertion of both generation and storage devices on the distribution network that are fundamentally disrupting the legacy centralised generation model. This will significantly re-converge lines and energy, and shift the legacy balance of power strongly towards the customer (which the Company's vision of Energy Reimagined clearly recognises).

General reading, observation and information provided by the Company indicates that the Company is positioning itself very well for this transition¹⁷, which is described more fully in Chapter 3.

2.6 Sector changes since last Ownership Review

There have been no amalgamations of EDB's since the last Ownership Review in 2012¹⁸.

¹² s54D(1) of the Commerce Act 1986.

¹³ It is noted that even though Network Tasman is 100% trust-owned, it did not meet these 4 criteria because the Trust Deed provides for an appointed Trustee. It is understood that similar issues have arisen with other Trust's where the Deed provided for a vacated seat to be filled by co-opting rather than by a by-election.

¹⁴ Subpart 6 of Part 4 of the Commerce Act 1986.

¹⁵ <http://www.comcom.govt.nz/treatment-of-consumer-owned-electricity-distribution-businesses/>

¹⁶ <http://www.legislation.govt.nz/act/public/1986/0005/latest/DLM1940043.html>

¹⁷ This is an indicative view, and is not based on a comprehensive assessment of the Company's technology strategies or risk mitigations.

¹⁸ For completeness, it is noted that Marlborough Lines sales of its 51% stake in OtagoNet to The Power Company and Electricity Invercargill in 2014 and of its 14% stake in Horizon Energy to Trust Horizon in 2015 did not result in any amalgamations.

2.7 Other ownership reviews

It is noted that ownership reviews by other energy trusts over the last 5 years have concluded that retaining trust ownership is the preferred option:

Year	Energy Trust	Ownership review conclusions
2021	Network Tasman Trust	The Board of the Company recommends to the Trustees that the ownership of the company remain in its present consumer trust ownership model ¹⁹ .
	West Coast Electric Power Trust	Trustees moved and passed that the Trust retains, on behalf of consumers, the shares in Westpower and the associated companies ²⁰ .
	Waitaki Power Trust	That the shares in Network Waitaki Ltd continue to be owned by the Waitaki Power Trust ²¹ .
	Waipa Networks Trust	The Trustees and Directors are unanimous in proposing Waipa Networks Limited continue to be 100% trust owned ²² .
2020	Lines Trust South Canterbury	Recommend that Lines Trust South Canterbury continues to retain its shareholding in Alpine Energy for the next three years ²³ .
	Waitomo Energy Service Customer Trust	Recommend that the beneficial consumers retain the current ownership structure (of 100% trust ownership) ²⁴ .
2019	Electra	Continued 100% trust ownership.
2018	MainPower Trust	The Trustees resolved unanimously that it is in the best interests of Beneficiaries for the MainPower Trust to hold 100% of the distributable capital of the Trust ²⁵ .
	Hawkes Bay Power Consumers Trust	The Trustees have unanimously resolved that the shares are to be retained in 100% Trust ownership at this time ²⁶ .
2017	Northpower	Retain all Northpower shares in trust ownership ²⁷ .

The Trust welcomes these decisions, and notes that all these trusts have concluded that retaining 100% ownership is the best option.

¹⁹ <http://www.networktasman.co.nz/media.ashx/ntllibrary16-864452-v1-ownershipreviewletteronttjune2021.pdf>

²⁰ <https://www.wcept.org.nz/news.html>

²¹ <https://www.waitakipowertrust.co.nz/assets/Uploads/2021-Ownership-Review-of-Shares-in-Network-Waitaki-Limited.pdf>

²² <https://www.waipanetworkstrust.co.nz/wp-content/uploads/2021/05/Waipa-Networks-Ownership-Review-Combined.pdf>

²³ <https://www.linetrustsc.org.nz/wp-content/uploads/LTSC-Ownership-Review-2020-002.pdf>

²⁴ <https://www.wesct.org.nz/wp-content/uploads/2020/08/2020-Ownership-Review-Complete.pdf>

²⁵ <https://www.mainpowertrust.org.nz/capital-distribution-review>

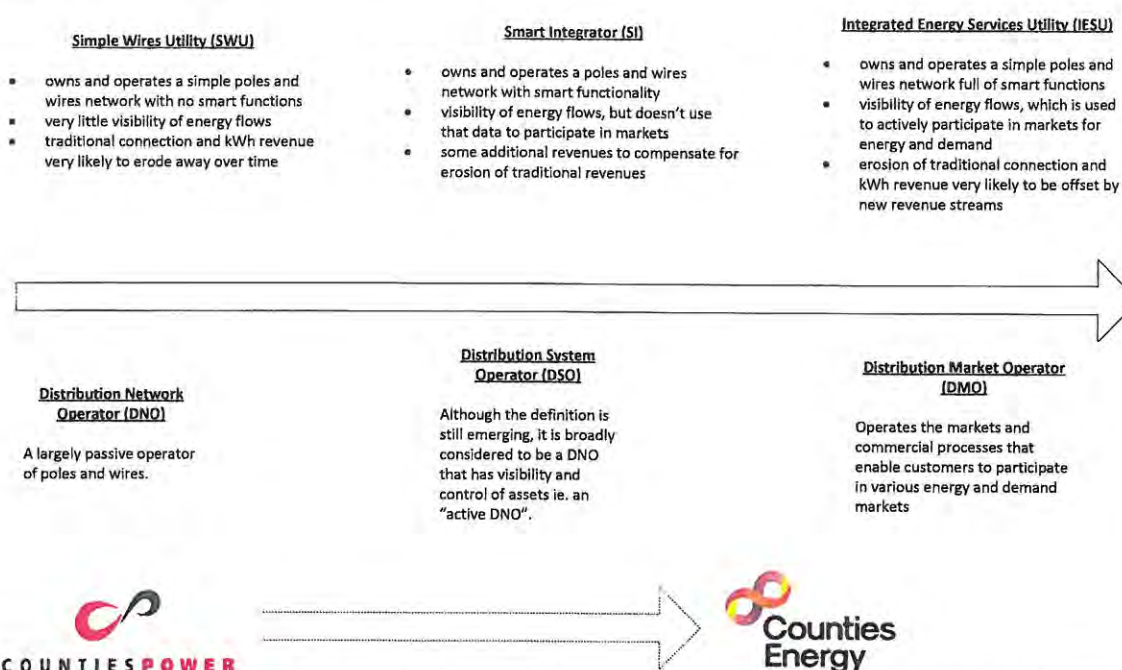
²⁶ <https://drive.google.com/file/d/1jLuFnADbTUpXlZjpjFXUt9A3XBM2Wb/view>

²⁷ <https://northpower.com/company/about-us/ownership/ownership-review>

3. Energy Reimagined

3.1 The energy transition and decarbonisation

Traditional poles & wires companies such as Counties Energy Ltd predecessor are facing the single biggest change in over 120 years since the development of higher distribution voltages in the 1890's. Driven by the global trends of decarbonisation and rapidly emerging technologies, some traditional poles & wires companies are transitioning from being Simple Wires Utilities to Integrated Energy Services Utilities, as shown below:



Since the 2012 Ownership Review, the Company has made a significant transition from being a SWU towards being an IESU, which will present the Company with the following challenges...

- Greater complexities in balancing supply with demand every second to ensure quality of supply and reliability.
- Greater peaks and troughs in demand including from the mass uptake of electric vehicles or small-scale solar generation.
- Prudent use of energy storage devices and development of new energy services to help smooth those peaks and troughs.
- Two-way flows of power, rather than just the traditional one-way, creating new commercial, safety and technical opportunities.

The vision of Energy Reimagined will position the Company well to not simply meet these challenges but to capture the market share and revenue opportunities that will emerge from those challenges.

3.2 The Company's transition to date

3.2.1 The energy transition itself

The Company is clearly on an exciting journey to becoming an IESU, providing reliable electricity and related services to both its traditional customers and to new customers as new markets emerge.

3.2.2 Additional endorsements of the Trust and Company

The following additional endorsements of the Trust and Company are noted...

- External parties commented favorably on the Trust's AGM held in December 2021.
- Industry organisations have commented favorably on the Company's approach to industry issues.

3.3 Specific initiatives

The Company's specific Energy Reimagined initiatives include²⁸...

Decarbonising transport	Supplying and supporting low carbon energy
<ul style="list-style-type: none"> • Investment in two of ECL Group's subsidiaries²⁹ (Fuel Systems, and Group Technology). • Providing EV rapid chargers to encourage EV uptake, including ECL partnering with ABB to increase access to OpenLoop EV charging • Recycling spent EV batteries to be used as stationary batteries. • Offering bus charging in Auckland and Christchurch through ECL. 	<ul style="list-style-type: none"> • Providing for the integration of solar panels into the network. • Closely watching opportunities for further renewable energy development.
Optimising grid investment	Market functionality
<ul style="list-style-type: none"> • Use of grid-scale batteries to avoid unnecessary network investment. • Careful network investment where necessary to meet the increased demand from decarbonized industry, transport and home life. 	<ul style="list-style-type: none"> • Development of trading platforms to capture the increasing number of revenue streams emerging from new markets for energy services. • Continuing to own and operate smart metering, recognising that access to real-time data is critical to becoming a DSO and a DMO. • Recognising the importance of working cooperatively with disruptors and intermediaries, rather than becoming their inevitable victim. • Implementing a new advanced distribution management system (ADMS) that will integrate with the Company's other systems.

²⁸ Noted from a desk-top review of the Company's website, asset management plan and information provided by the Company.

²⁹ <https://www.countiesenergy.co.nz/news/counties-power-invests-into-ecl-group>

3.4 Assessment against leading global electric companies

The Company's transition and decarbonisation work compares well with the transition of the following leading global electric companies...

Australia & NZ	North America	Europe
<ul style="list-style-type: none"> • Vector • SA Power Networks • United Energy • AusNet Services 	<ul style="list-style-type: none"> • Portland General Electric • Sacramento Municipal Utility District 	<ul style="list-style-type: none"> • Electricity North West • Western Power Distribution • Vattenfall • Alliander • EnBW

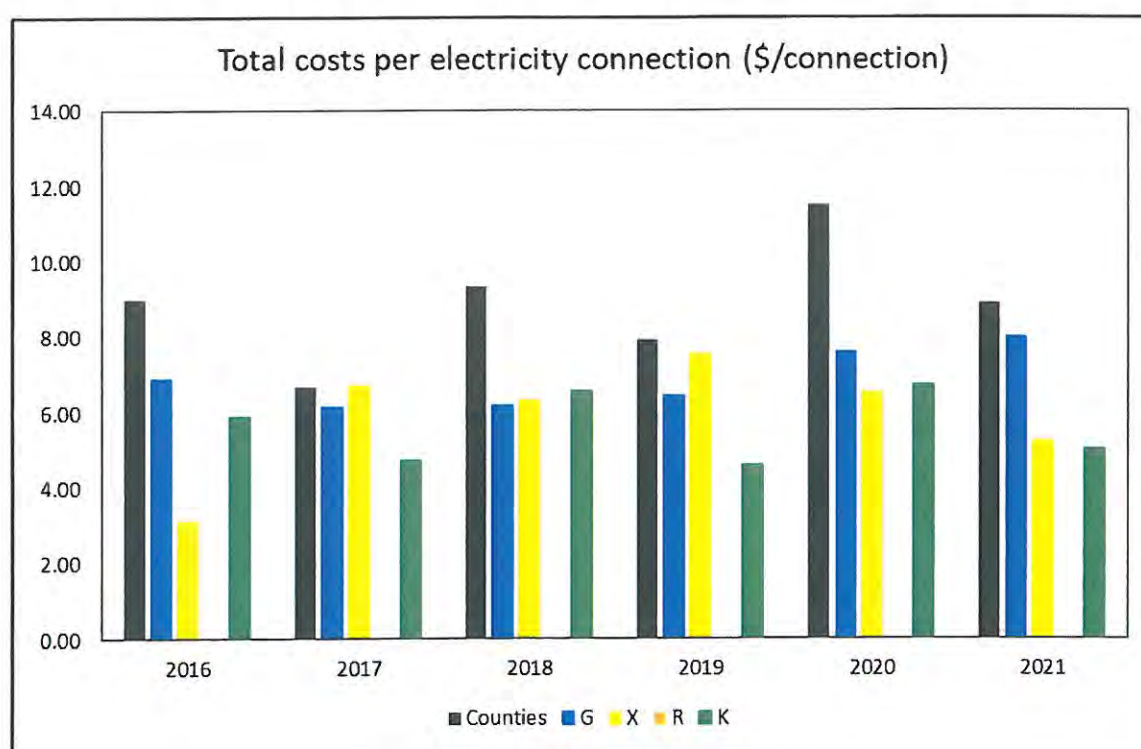
4. Trust performance

4.1 Trusts chosen for comparison

The Trust has been compared to four comparable trusts with between 35,000 and 45,000 electricity connections, which can be expected to have similar scale³⁰.

4.2 Total costs per electricity connection

The total annual costs per electricity connection for each of the identified trusts is shown below, and indicates that the Trust's total annual costs per connection are at the high end of the peer cohort:



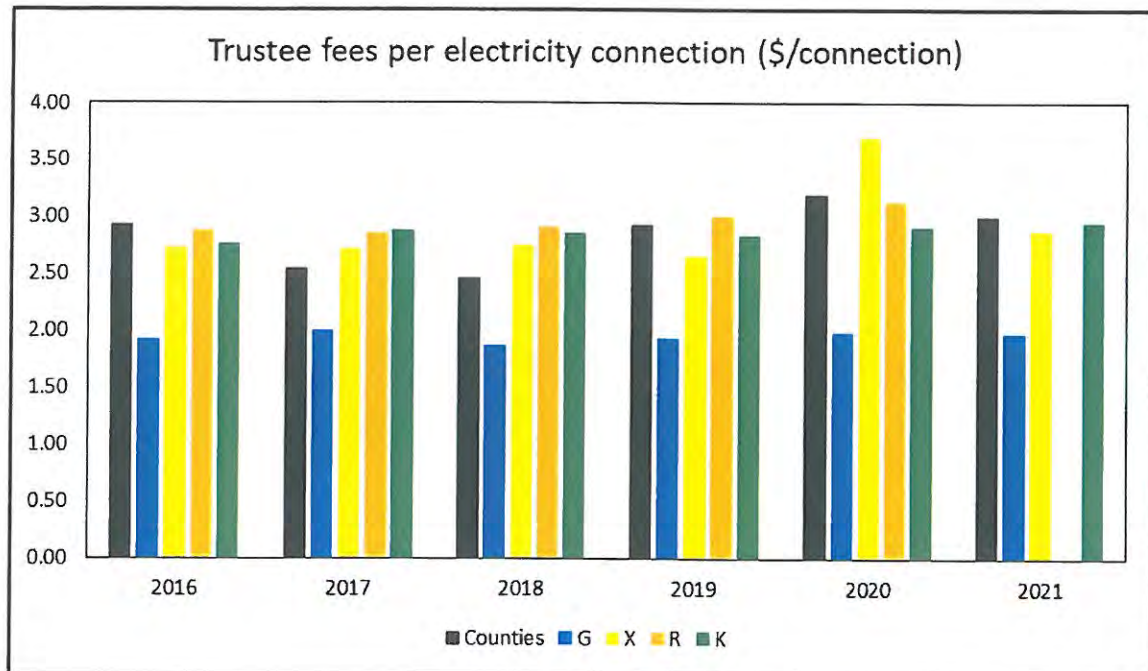
Explanations for the Trust's total annual costs per connection being higher than its peers include...

- The Trust engages regularly with the Company as a prudent shareholder, overseeing a wide range of non-network activities and high network growth investment that other Trust's do not face.
- The Trust spends a lot of time engaging on industry issues, including attendance at events and conferences to ensure that it correctly understands issues and opportunities.
- Trust 'R' did not provide sufficient information for this metric to be calculated.
- The Trust keeps all its costs totally separate from the Company, and does not rely on the Company for secretarial and administrative services.

³⁰ This data has been anonymised, as not all trusts make their performance data public.

4.3 Trustee fees per electricity connection

The (annual) trustee fees per electricity connection for each of the identified trusts is shown below, and indicates that the Trustees' fees per connection are within the cohort's range:



- Trust 'R' did not provide sufficient information for this metric to be calculated for FY21.

5. Advantages and disadvantages of Trust ownership

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

Issue	Advantage / disadvantage	Comment	Dependent on 100% trust ownership
Consumer benefits			
• Shareholder value remains totally consumer owned.	Advantage	Avoids the tension between investing in supply reliability and paying dividends to non-beneficial owners.	Yes
• All of the Company's earnings attribute to the consumers.	Advantage		No, but earnings obviously attribute in proportion to stake held.
• Any sale of a large tranche of the Company shares by the Trust would be likely to yield a greater per-share value than if small groups of shares were "mopped up" by an acquiror directly from the consumers.	Advantage	A trust would be more likely to take sound advice on whether an offer is fair ³¹ .	No
• The Trust is likely to "look after" consumers interests (particularly pricing) ³² , even if the formal governance mechanisms prohibit the Trust influencing pricing policy.	Advantage		No, but would still require a controlling stake
• Properly structured tariffs and views on distributing income (especially via a "break even" approach) may reduce the tax payable by the Company.	Advantage	Less of the "community wealth" leaks out as tax.	Yes

³¹ There was plenty of evidence from the energy company share give-aways of the mid-1990's that most individual shareholders had little if any understanding of the value of their shares and rapidly on-sold them.

³² It is noted that some EDB's that are subject to the Default Price Path are charging less than the DPP allows, effectively creating consumer value by not charging as much in the first place eg. The Lines Company has been charging about \$3m per year less than the DPP allows.

5. Advantages and disadvantages of Trust ownership

<ul style="list-style-type: none"> The current eligibility criteria for the discount inevitably disadvantages some Beneficiaries eg. those who pay line charges all year but then cease to become a Company customer the week before the eligibility date for the annual discount. Seeking to correct this by (for example) defining 2 or more eligibility dates might advantage some, but might also disadvantage others ie. there will always be winners and losers 	Mixed	Dependent on exactly how the distribution roll is struck ³³ .	No
<ul style="list-style-type: none"> The consumers' investment still has some exposure to the technological risk associated with delivery of mass-produced energy through poles and wires. 	Disadvantage	The Company is reducing this risk by diversifying into non-lines activities (as described in Chapter 3), and arguably is turning those risks into opportunities.	Yes, although proportional to stake held.
<ul style="list-style-type: none"> A strong focus on consumer ownership by the Trust could lead to worthwhile amalgamation opportunities being ignored or discarded due to a fervent focus on "local ownership". 	Disadvantage		No, a trust holding a lesser but controlling stake could still veto a worthwhile amalgamation offer.
Governance			
<ul style="list-style-type: none"> The present Trust Deed requires regular formal reviews of ownership, ensuring that a substantial consumer investment is subject to regular scrutiny. 	Advantage		No, a trust holding a lesser stake could still initiate regular scrutiny.
<ul style="list-style-type: none"> Resolution of shareholder issues should be easier with a trust than with a widely spread group of potentially conflicting interests. 	Advantage		Yes, as a trust holding even a controlling stake may still need to deal with directors appointed by shareholders with different views.
<ul style="list-style-type: none"> Any new investors in the Company (should the Trust decide to sell a stake) would probably find it easier to deal with a trust as opposed to a widely spread group of shareholders. 	Advantage		No (because by definition if the trust sells, it will hold less than 100%)

³³ Striking the distribution roll on 1 specific date will inevitably disadvantage those customers who move out of the EDB area the day before the roll is struck and arguably unfairly advantage those customers who move into the EDB area the day before the roll is struck.

5. Advantages and disadvantages of Trust ownership

<ul style="list-style-type: none"> Any minority investor in the Company (should the Trust decide to sell a stake) would be less likely to successfully force their will upon a trust than upon a widely spread group of small shareholders who lack any obvious "push back" mechanism. 	Advantage		No (because by definition if the trust sells, it will hold less than 100%)
<ul style="list-style-type: none"> All of the directors are accountable to the same shareholder ie. there are no factions on the Board representing different shareholders. 	Advantage	Even if the trust holds a controlling stake, directors appointed by other shareholders may cause the Board to deviate from the trust's views.	Yes
<ul style="list-style-type: none"> Absence of conflicting goals amongst different shareholders. 	Advantage	Although a trust holding a controlling stake would probably get its way, achieving that could prove more difficult than with a simple 100% trust-owned structure.	Yes
<ul style="list-style-type: none"> Directors will probably be more accountable to a trust than to a widely spread group of small shareholders. 	Advantage		Yes
<ul style="list-style-type: none"> The present Trust provides a stable environment for the Board and Management to focus on supply reliability and cost minimisation. 	Advantage		Not entirely, but 100% trust ownership provides the smoothest path.
<ul style="list-style-type: none"> Present election arrangements helps maintain the accumulated experience of the Trustees. 	Advantage	Maintaining trustee experience is not dependent on the trust's stake, however those trustee's influence is.	No
Industry structure, positioning & ownership			
<ul style="list-style-type: none"> Provides a more robust defence against unwanted acquisitions of the Company. 	Neutral	A trust is more likely to seek sound advice, but then could also reject fair offers.	No, only a controlling stake is required.
<ul style="list-style-type: none"> A trust would be more likely to carefully evaluate an acquisition bid than small shareholders would. 	Advantage	Could also reject fair offers despite trust beneficiaries wanting to sell.	No, trustee's diligence would not depend on stake held.
<ul style="list-style-type: none"> Continued trust ownership would prevent minority interests gaining effective control. 	Advantage	Depending on how the company's constitution is written, even a small shareholder may be able to veto Board decisions.	No, requires only a controlling stake.

5. Advantages and disadvantages of Trust ownership

<ul style="list-style-type: none"> Low cost of maintaining the share register and performing other related activities. 	Advantage		Yes
<ul style="list-style-type: none"> May limit the Company's ability to raise equity for future development. 	Disadvantage	Hasn't proved to be a problem simply for funding routine electricity distribution works.	No, could occur with less than a 100% stake.
Operating costs			
<ul style="list-style-type: none"> Existing Trust arrangement incurs election expenses every second year. 	Disadvantage	Although this is a disadvantage it is probably a lower cost option than other ownership models.	No, would be incurred regardless of the trust's stake.
<ul style="list-style-type: none"> The Trust's decisions represent the majority of consumers' wishes, and by default will probably not represent those who would prefer the cash rather than an "on behalf of" stake in the Company. 	Disadvantage	A possible advantage is that those individuals who would prefer the cash may be prevented from selling their stakes too cheaply.	No, requires only a controlling stake.

6. Benefits of Trust ownership to Consumers

The benefits to Consumers of 100% trust ownership include:

- The discounts and dividends paid by the Company to its shareholder(s) attribute to Beneficiaries rather than to a third party. Alternatively, if the Company was to operate on a “break-even” basis, an equivalent value would come to Beneficiaries through lower line charges.
- A trust is more likely to seek external advice and more able to afford external advice on either continued ownership or disposing of the shares in the Company, almost certainly more than individual shareholders might.
- A single shareholder is likely to lead to a Board that is more united, and able to give its efforts to improving company performance rather than reconciling potentially competing shareholder interests.
- The ability to cooperatively work with and encourage the Company with its Energy Reimagined vision, including reducing technology and regulatory risk exposures.


The key disadvantages of 100% trust ownership include:

- The lines business component of the trust’s investment is subject to general regulatory risk, despite the Company currently being exempt from the Default Price Path. The following points are noted:
 - The risk of revenue control through such means as extending the Default Price Path to all EDB’s is considered low as of February 2022.
 - The fraction of the business exposed to this specific regulatory risk will decline as non-lines businesses contribute more to the Company’s total revenue and earnings.
- The lines business component of the Trust’s investment is subject to technology stranding risk. As noted in Chapters 2 and 3, this risk is being reduced as Energy Reimagined grows other non-lines businesses so that the lines revenue represents less of the Company’s total revenue and earnings.


7. Alternative ownership options

7.1 Ownership options

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

Decreasing degree of Trust ownership 

	Total	Controlling	Minority	None
Retain full trust ownership.	1(a)	1(b)	1(c)	1(d)
Give away shares to recognised capital beneficiaries.	2(a)	2(b)	2(c)	2(d)
Give away shares on some other basis.	3(a)	3(b)	3(c)	3(d)
Form a co-operative company.	4(a)	4(b)	4(c)	4(d)
Sell shares in the Company to another EDB for cash (or sell the assets, leaving the Company as a cashed-up shell).	5(a)	5(b)	5(c)	5(d)
Amalgamate the company with another EDB in return for shares in the enlarged company.	6(a)	6(b)	6(c)	6(d)
Place shares into some other defined ownership structure (other than cooperative).	7(a)	7(b)	7(c)	7(d)
Publicly list the shares on the NZX, NZAX or similar market.	8(a)	8(b)	8(c)	8(d)

Options 

7.2 Discussion of options

Option 1 - Retain full trust ownership

- Options 1(b), 1(c) and 1(d) cannot physically occur, and are eliminated from any further discussion³⁴.

³⁴ By way of explanation, if the Trust retains a 100% stake in the Company it cannot also hold a lesser stake. Similarly, if shares are given away, the Trust cannot retain 100% ownership.

Option 2 - Give away shares to recognised capital beneficiaries

- Possible options include giving the shares in the Company to the recognised capital Beneficiaries such that the Trust would retain either a Controlling stake, a Minority stake or No stake. It was observed during the energy company share giveaways of the 1990's (eg. EnergyDirect and Power New Zealand) that most of those shares were rapidly on-sold at the brokers' caravans parked in shopping malls, and that the accumulated capital of 70 years was largely frittered away.
- If the Trust did "cash up" and return the sale proceeds to the Beneficiaries, Options 5(b), 5(c) or 5(d) wherein the Company is sold for cash to another EDB by competitive tender would probably yield a higher per-share price.
- A further issue that applies to Option 2 (and also to Options 3 and 5) is that the current capital Beneficiaries would be effectively withdrawing the accumulated capital of past generations (dating back to 1924) rather than leaving that capital for the benefit of future generations.

Option 3 - Give away shares on some other basis

These options would see varying stakes in the Company allocated on some other basis. Possible options for allocation might include...

- Registered electors (as in the case of Power New Zealand in the early 1990's).
- District councils within the network area on some yet-to-be-defined basis³⁵. It is noted that the only energy company whose ownership defaulted to a district council as per the 1992 establishment process was Egmont Electricity (and whose boundaries corresponded to the South Taranaki District Council, simplifying the allocation).

The major difficulties with these options are....

- It may require amendments to the Trust Deed to allocate shares to parties other than those already defined (the capital beneficiaries).
- Any further basis of allocation may not be on the basis of electricity related factors such as number of connections, maximum demand, energy consumption etc, thereby creating a further inequity eg. as noted above, the basis for distributing the Power New Zealand shares was the electoral roll.
- There could be the possibility of legal challenges to an alternative distribution basis.
- The councils may simply sell their shares with no guarantee that the proceeds would be used to compensate the "right" beneficiaries through rate relief commensurate with the expected returns from the Company. It is noted that when the South Taranaki District Council sold its 100% stake in Egmont Electricity to Powerco, the sale proceeds became subject to the additional provisions of the South Taranaki District Council (Egmont Electricity Limited Sale Proceeds) Act 1999³⁶.

³⁵ The dissolving of the Franklin and Papakura Districts makes this option even more problematic, and would require an additional safeguard to ensure that any benefits only passed to the originally defined Beneficiaries and not to the wider Waikato District and Auckland ratepayers.

³⁶ <http://www.legislation.govt.nz/act/local/1999/0005/latest/DLM85301.html>

Option 4 - Form a cooperative company

- A cooperative arrangement in which a shareholding in the Company is attached to an electricity connection would be a philosophically sound approach, albeit at the additional cost of establishing and maintaining a share register.

Option 5 – Sell shares to another EDB for cash (or sell the Company assets)

- As noted above, this option would be more likely to yield a higher per-share price for capital beneficiaries, as opposed to each beneficiary on-selling their own parcel of shares.
- Option 5(d) would probably yield the highest per-share price as a full amalgamation and release of synergies could occur. Such release of synergies might be difficult to achieve with options 5(b) and 5(c).
- It is not clear that there are any obvious buyers for the Company. In previous decades increasing scale through acquisition was seen as a key success factor, however in a world of Energy Reimagined the key success factors are now innovation and customer focus.

Option 6 – Amalgamate the Company with another EDB in return for shares in the enlarged company

- Option 6(d) is essentially a sub-set of Option 5(d) in which the Trust would receive shares in the enlarged acquiror rather than cash³⁷. As noted above, growth by acquisition is no longer a key success factor.
- Options 6(b) and 6(c) would be difficult to achieve, and may not release amalgamation synergies.

Option 7 – Place shares into some other defined ownership structure

- This option provides for placing varying stakes in the Company into another yet-to-be-defined ownership structure.
- This is likely to result in additional inequities³⁸ in distributing benefits (as in Option 3) and is also likely to result in additional costs.

Option 8 – publicly list shares in the Company.

- Listing would provide a truer measure of the Company's value. However this would only occur as the shares actually traded, hence Option 8(a) would be somewhat self-defeating.
- Option 8(b) would allow potentially unwanted shareholders to gain a stake, possible to the point of being able to appoint 1 director to the Company's Board.
- Option 8(d) runs the risk of no buyers emerging. In this instance, Option 5(d) would probably have lower risks and lower costs.

³⁷ This would be similar to how the Hutt-Mana Energy Trust exchanged its' 25% stake in Trans Alta for a 10% stake in the enlarged NGC.

³⁸ The phrase "additional inequities" is used here to reflect the fact that the current basis of distribution by a roll struck at 1 time includes an implicit inequity by not recognising a consumers duration of connection ie. someone who moves into the area a month before the distribution roll is struck has a greater entitlement than a consumer of 40 years who left the area a month before the roll is struck.

7.3 Comparison with continued Trust ownership

7.3.1 Identifying a basis for comparison

In order to compare the options set out above it is necessary to define an objective basis for making that comparison. The following bases have been considered:

- The Deed does not embody any obvious preference for retaining ownership of the Company, but does however set out the procedures to be followed under certain circumstances such as disposal of more than 25% of the Company or any major transaction that would modify the rights of shareholders.
- The Statement of Corporate Intent (of the Company)³⁹ lists “the provision and maintenance of a safe, efficient, reliable and cost-effective electricity distribution network” amongst the nature and scope of the Company’s activities. Whilst other ownership models have demonstrably provided quality service at a competitive price⁴⁰, they would arguably not be doing so for the “benefit of its customers”.
- The Statement of Corporate Intent lists Objective 3.2(c) as “endeavor to provide its consumers with an annual discount...”. This would be difficult if not impossible to achieve with any ownership model other than 1(a).
- The analysis above notes that a declining fraction of the Trust’s investment is exposed to electricity lines regulatory risk (which is considered low as of February 2022).
- The likely costs of establishing and maintaining each option over and above continuing with 100% Trust ownership.

7.3.2 Defining the measures of comparison

The analysis above has identified several issues that each option can be compared against to derive a score or preference. These issues, along with how important that issue is (on a 1 to 10 scale), are shown below:

Issue	How important is that issue ⁴¹	Reason for weighting
Company works for the “benefit of its customers”	8	This has been assigned a weighting of 8 out of 10 because beneficial (ie. 100% Trust) ownership is more likely to ensure that the Company is solely focused on its customers rather than also having to focus on a non-beneficial shareholder.
“Endeavour to provide ... an annual discount”	10	This has been assigned a weighting of 10 out of 10 because it is considered that while any degree of Trust ownership can provide an annual customer discount, that discount would be maximised under 100% Trust ownership.

³⁹ SCI for 31st March 2022, provided by the Trust.

⁴⁰ The issue of “competitive price” will always be arguable for a monopoly business.

⁴¹ This is the importance of the issue, not a score of “how well the current arrangement is performing”.

Reduce effective cost of equity to significantly less than a commercial rate ⁴² , thereby lowering prices	10	This has also been assigned a weighting of 10 out of 10 because it is considered that 100% Trust ownership would maximise this benefit.
Maintaining SAIDI at target levels	5	This has been assigned a weighting of 5 out of 10 as it is considered that other forms of ownership could also maintain SAIDI at target levels.
Minimise exposure of Trust's investment to sector regulatory risk.	2	This has been assigned a weighting of 2 out of 10 as it is considered that: <ul style="list-style-type: none"> • The risk of further lines regulation is considered to be low as of February 2022. • Lines revenue represents a declining fraction of the Company's revenue.
Minimise exposure of Trust's investment to technology stranding risks.	5	This has been assigned a weighting of 5 out of 10 because the significant investments in line assets the Company is making to supply the expected electrification of transport and industrial heat carry the following risks: <ul style="list-style-type: none"> • That investment cost may prove unrecoverable if emerging markets for line services set low prices. • The assets themselves may be under utilised if the expected electrification growth doesn't occur.
Costs of establishing and maintaining each option over and above that of continuing with 100% Trust ownership.	8	This has been assigned a weighting of 8 out of 10 as it considered that keeping the overall costs of ownership low is a key objective of the current Trustees.

7.3.3 Scoring the measures of comparison

The scores that will be applied to each option (and multiplied by the respective weights) are set out below.

- +2 Option addresses the principle very well
- +1 Option addresses the principle
- 0 Option does not address or fail to address the principle (neutral)
- 1 Option fails to address the principle
- 2 Option significantly fails to address the principle

⁴² Because the dividends flow back to the consumers at least part of the cost of capital is being refunded, as distinct from flowing to a third party.

7.3.4 Scoring each option

The score assigned to each option against each issue, along with the total scores, are shown below:

Issue	"Benefit of customers"	Annual discount ⁴³	Lower prices	Maintain SAIDI	Regulatory risk exp.	Technology risk exp.	Cost of option	Score
Importance of this issue	8	10	10	5	2	5	8	
1(a)	16	20	20	5	2	5	8	36
2(b)	8	0	-10	0	0	-5	-8	-15
2(c)	0	0	-10	0	0	-5	-8	-23
2(d)	-16	0	-10	0	0	-5	-8	-39
3(b)	-16	-10	-10	0	0	-5	-16	-57
3(c)	-16	-10	-10	0	0	-5	-16	-57
3(d)	-16	-10	-10	0	0	-5	-16	-57
4(b)	16	20	10	5	-2	-5	-8	36
4(c)	16	20	10	5	-2	-5	-8	36
4(d)	16	20	10	5	-2	-5	-8	36
5(b)	8	-20	-10	0	4	10	-8	-16
5(c)	8	-20	-10	0	4	10	-8	-16
5(d)	8	-20	-10	0	4	10	-8	-16
6(d)	8	10	10	5	-2	-5	-16	10
7(b)	0	-20	-10	0	-2	-5	-8	-45
7(c)	0	-20	-10	0	-2	-5	-8	-45
7(d)	0	-20	-10	0	-2	-5	-8	-45
8(a)	8	20	20	0	-2	-5	-16	25
8(b)	0	10	10	0	-2	-5	-16	-3
8(c)	-8	-10	-10	0	-2	-5	-16	-51
8(d)	-8	-20	-20	0	-2	-5	-16	-71

The above table clearly shows that Option 1(a) – retain 100% Trust ownership best fulfils the identified objectives, with forming a cooperative (Options 4(b), 4(c) and 4(d)) or listing (Option 8(a)) both falling as distant second choices.

7.3.5 Estimated costs of other options

The estimated costs of establishing and maintaining some of the other options are shown below on a per-beneficiary basis:

Option(s)	Establishment cost	On-going cost
1(a) Maintain 100% Trust ownership	Nil	\$6 to \$7 per Beneficiary per year
4(a) – 4(d) Form a cooperative	About \$7 per Beneficiary	\$6 to \$7 per Beneficiary per year
8(a) – 8(d) List on an exchange	About \$9 per Beneficiary	About \$8 per Beneficiary per year

The above table indicates that the on-going costs of either a cooperative or listing are similar to that of continued Trust ownership. However the one-off costs to establish either ownership model would be about \$7 to \$9 per beneficiary for no obvious gain.

It is also to be noted that the other options would fulfil the ownership objectives set out in the various governance documents much less successfully than continued Trust ownership.

⁴³ Several of the comments from beneficiaries at the December 2021 meeting focused on how increasing costs would erode the discount.

8. Company performance

8.1 Identifying suitable comparative measures

The following comparative measures have been considered:

- Operating costs (OpEx) plus transmission costs (TrEx).
- Nett line revenue.
- Number of supply interruptions.

8.2 Identifying suitable peer EDB's

Suitable peers to compare the Company against have been identified as follows on the basis of connection density⁴⁴:

EDB	Connection density (connections / km)
Aurora Energy	14.1
Counties Energy	12.8
Unison Networks	12.3
Powerco	12.0
Waipa Networks	11.8

8.3 Cost comparisons

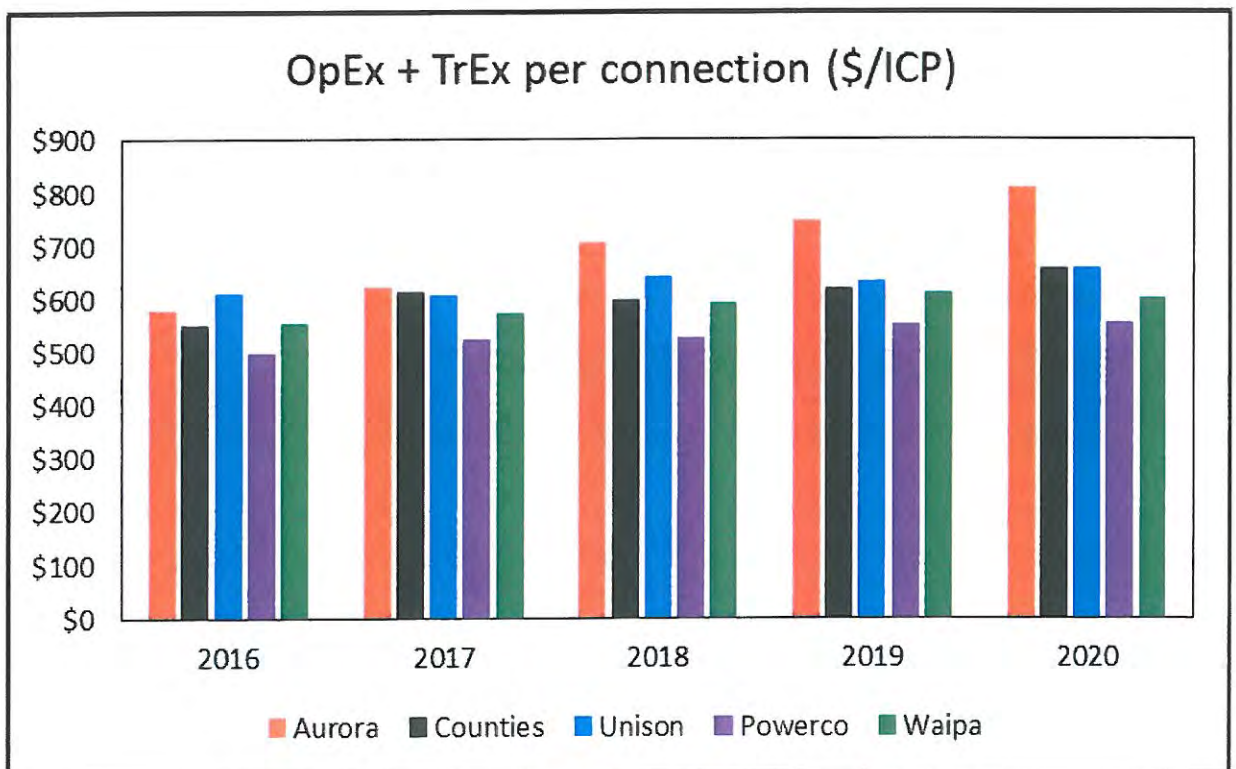
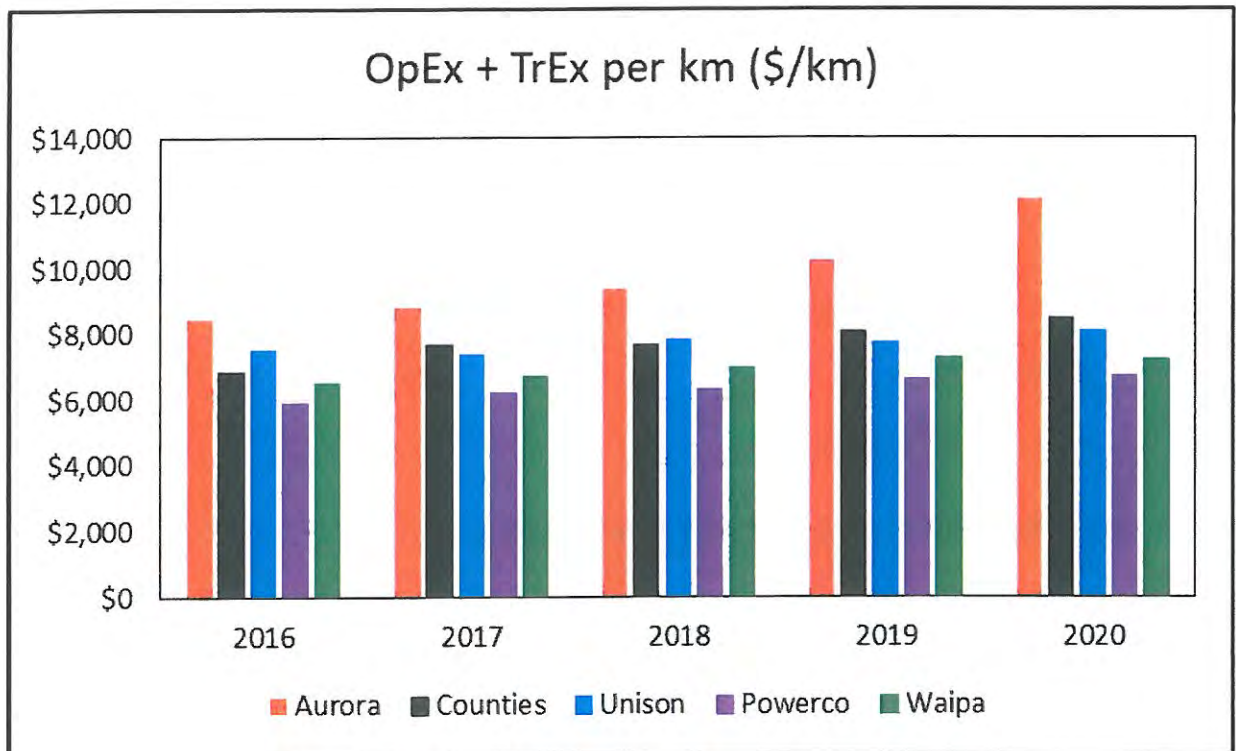
The following cost performance measures are set out below...

- Operating costs plus transmission costs per km⁴⁵.
- Operating costs plus transmission costs per connection.

The Company performance is around the middle of the peer cohort for the 5 years examined.

⁴⁴ Customer density is widely accepted as a significant driver of an EDB's cost structure.

⁴⁵ Transmission costs have been included to capture any trade-offs such as increased operating costs that reduce transmission costs.

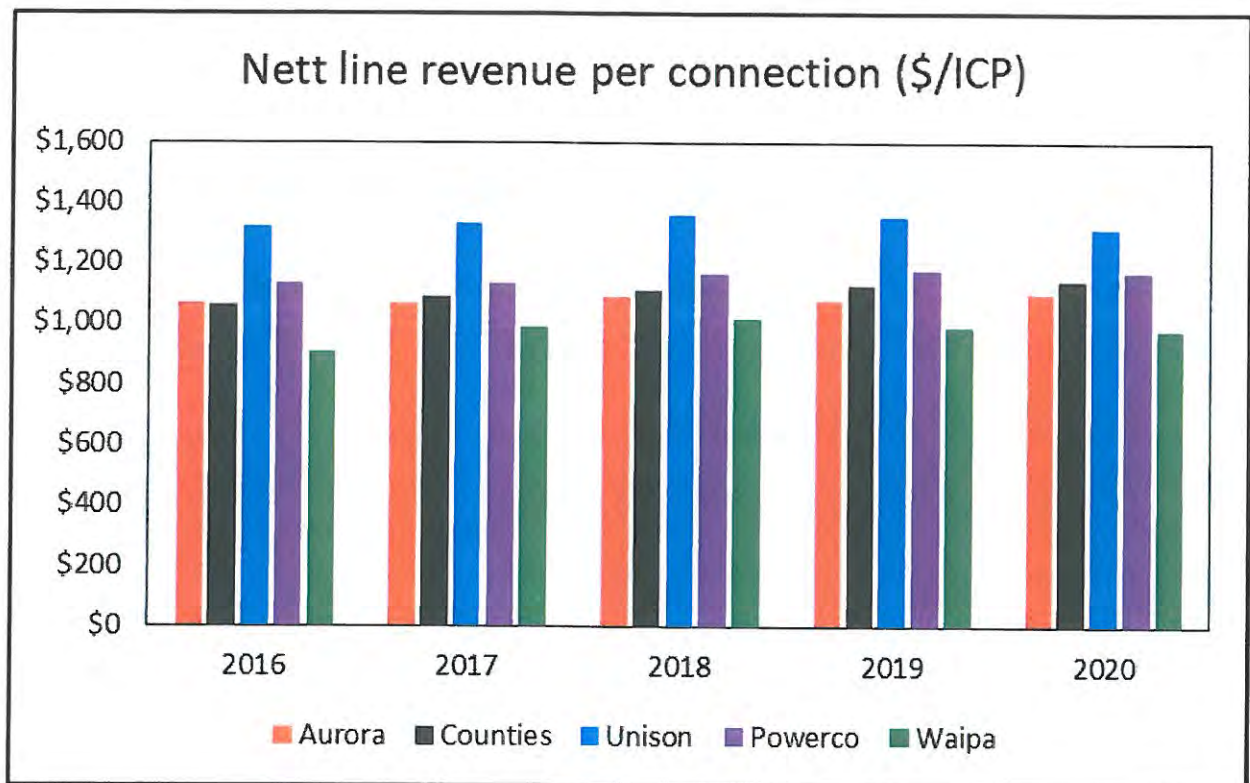


8.4 Price comparisons

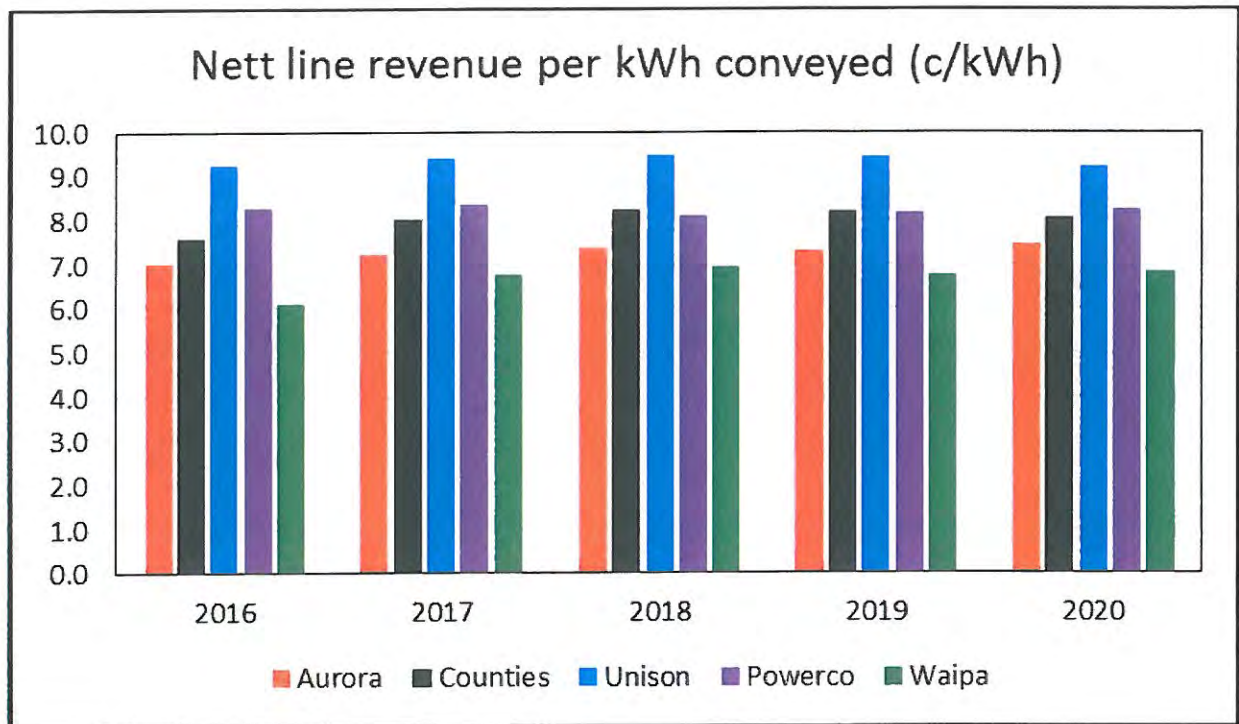
The following price measures are set out below...

- Nett line revenue per connection⁴⁶.
- Nett line revenue per kWh of electricity conveyed.

The Company performance is around the middle of the peer cohort for the 5 years examined.



⁴⁶ Nett line revenue is the regulatory line revenue less any discretionary rebates or discounts.

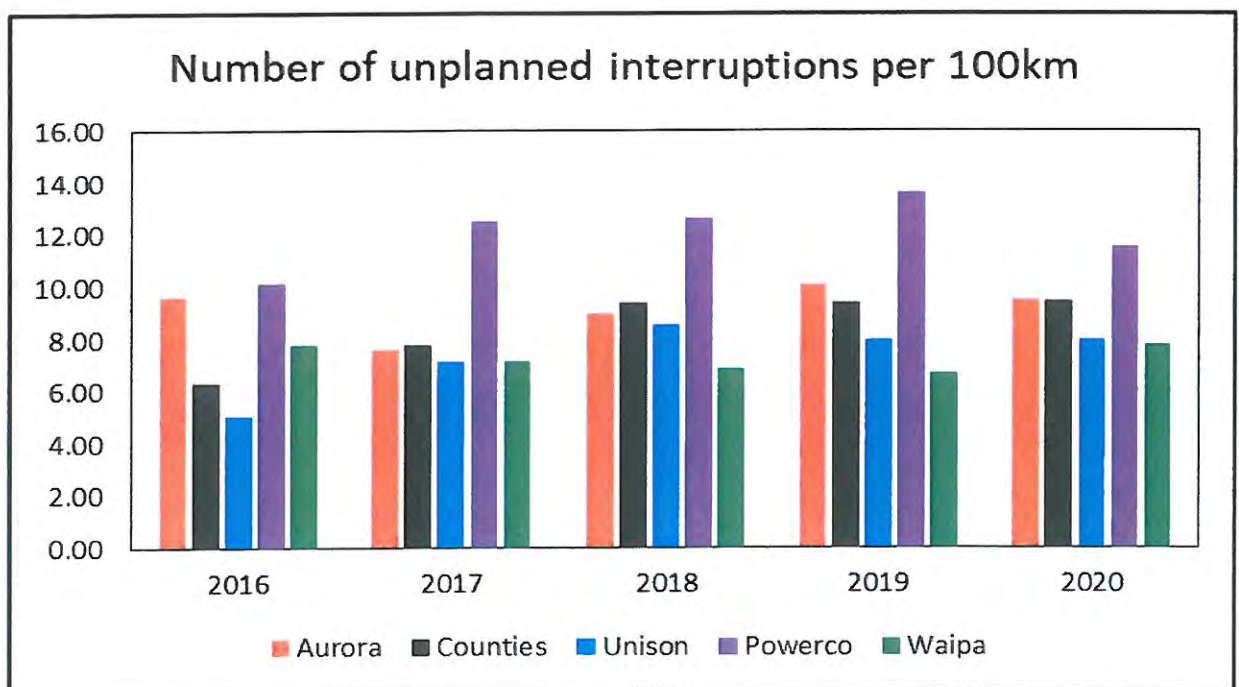


8.5 Supply interruptions

The following supply reliability measure is set out below...

- Number of unplanned interruptions per 100km.

The Company's number of unplanned interruptions per 100km is around the middle of the peer group.



9. Conclusions and recommendations

9.1 Conclusions

The key conclusion of this analysis is that continued 100% Trust ownership is the best way to fulfil the objectives set out in the Company's Statement of Corporate Intent.

The following additional conclusions are drawn from this analysis:

- There have been no EDB amalgamations since the last Ownership Review in 2012.
- Trust ownership reviews over the last 5 years have concluded that 100% ownership by the respective trusts should continue.
- That the Trust is an interested and active shareholder, appropriately exercising its oversight responsibilities of the Company and diligently engaging on industry issues and opportunities. This has led to the Trust's annual operating costs per Beneficiary being at the high end of the peer cohort.
- That a single shareholder provides a high degree of alignment for all Directors of the Company that could be very difficult to achieve with ownership models that involve multiple shareholders.
- That a Trust is more likely to seek, and more able to pay for, specialist advice on industry matters such as take-over offers.
- That alternative models of continued consumer ownership such as a cooperative or the listing of the Company would incur one-off costs equivalent to 1 years' Trust operating costs as well as also fulfilling the objectives set out in the Statement of Corporate Intent less successfully.
- That the Company's performance is around the middle of the identified peer cohort across cost, price and supply interruption measures.

9.2 Recommendations

The following recommendations are made:

- That the Trustees confirm that this analysis and these conclusions fulfil the requirements of clauses 14.1(a), 14.1(b) and 14.1(c) of the Deed.
- That the Trustees satisfy themselves that the regulatory risk exposure of the Trust is acceptable.
- That the Trustees satisfy themselves that the Company is adequately mitigating the value stranding risk posed by emerging technologies.

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APPENDIX F

CountiesEnergyTrust

10 Yearly Ownership Review 2023

BACKGROUND

Extract from the Trust Deed:

Clause 14.4

Decision: Following completion of the Consumer Consultative Procedure, and in any event not later than eleven (11) years after the Resettlement Date, the Trustees shall decide (subject to Clause 14.8) whether to:

- (a) retain the Shares and other assets of the Trust; or
- (b) dispose of a portion of the Shares and other assets and retain the remainder in the Trust; or
- (c) dispose of all the Shares and other assets; or
- (d) dispose of the Shares in whole or in part in conjunction with or separately from any other part of the Trust Fund;

Clause 14.5

Notification of Decision: The Trustees shall notify the public in accordance with Clause 11 of the decision made under Clause 14.4.

RESOLUTION

That the Trustees of Counties Energy Trust, in respect of the 10 yearly Ownership Review conducted in 2023, as required under Clause 14 of the Trust Deed, having given due consideration to the various reports, the requirements of the Trust Deed and noting the absence of submissions from Consumers during the consultative period, agree to retain 100% Trust ownership of the shares in Counties Energy Limited and the other assets comprising the Trust Fund and that the formal Ownership Review report be issued.

DATE

13th February,

2024

C P Rupp (Chair)

A D Eyes

M E Matthews

M J Marr

D W Thomson