LineTrust. South Canterbury ™

THREE YEAR OWNERSHIP REVIEW

2023

LineTrust.
South Canterbury

OWNERSHIP REVIEW 2023

TRUSTEE COMMENTS

The Trustees of LineTrust South Canterbury acknowledge and thank the Directors of Alpine Energy Ltd for their report on the three-year ownership review of the Trust.

The conclusions and recommendations of the report from the Directors are in accordance with the collective opinion of the Trustees.

At a forthcoming joint meeting of the Directors and the Trustees, the Trustees anticipate a unanimous decision to continue the Trust ownership of 40% of the shares in Alpine Energy Ltd.

R J Paterson
7/12/2023.

R J PATERSON
CHAIRPERSON

www.linetrustsc.org.nz email: info@linetrustsc.org.nz
Secretary: Ford Simpson Ltd 18 Woollcombe Street PO Box 540 Timaru 7940 03 687 2080

Board Recommendation Memorandum

To:	The LineTrust South Canterbury
From:	The Board of Directors, Alpine Energy Limited
Review:	N/S
Date:	6 October 2023
Title	LineTrust South Canterbury ownership review 2023

Recommendations

1. Note the contents and summary contained in this paper.

2. Note the recommendation to the LineTrust South Canterbury to retain its shareholding in Alpine Energy Limited for the next three years.

Summary

In a recent letter addressed to Alpine Energy Limited (AEL), the LineTrust South Canterbury (LTSC) Trustees initiated a review of the LTSC's continued ownership of shares in AEL. This review was initiated under clause 4.1 of the LTSC's Deed of Trust, which in summary requires the Directors of AEL to report to LTSC in a manner prescribed by the Deed of Trust.

The requirements are to deliver an analysis of the performance of the Company to the date of the report, together with a discussion of the advantages and disadvantages of continued trust ownership. The Directors are to prepare a report considering proposals and available options for future ownership of the shares owned by the Trust. The Deed of Trust gives the Trustees three (broad) options:

- Retain the shares in the Trust; or
- Dispose of a portion of the shares and retain the remainder in the Trust; or

- Dispose of all the shares.

The report is annexed to this memorandum of recommendation. The ownership report has been completed with the recommendation that the LTSC continues to retain its shareholding within the Trust until the next review.

Attachments

a) Alpine Report – LineTrust South Canterbury Ownership Review

LineTrust South Canterbury (LTSC)
Shareholding – Ownership Review

Introduction

The Board of Directors of Alpine Energy Limited (AEL) have, in accordance with clause 4.1 of the LTSC trust deed, completed a review of the trust's investment in AEL and considered the options available to the trust in terms of continuing to hold its shares.

The Deed of Trust requires the Directors to prepare a report considering proposals and available options for the future ownership of the shares owned by the Trust. LTSC currently owns 40% of the shares in AEL.

The Trust Deed requires the Trustees to initiate ownership reviews within three years of deciding on any previous review, as long as the Trust continues to hold any shares in the company.

Clause 4.1 specifies the minimum contents of the report and specifically requires the Directors to set out their conclusions as to the most appropriate form of ownership for the future period.

This is the seventh review of the ownership of the shares of the Company. The last review was completed in 2020.

LineTrust South Canterbury overview

The LTSC was established in 2002 and is a shareholder in AEL. The Trust holds 40% of the shares of AEL on behalf of the consumer beneficiaries, who are defined in the Trust Deed as consumers who are connected to the AEL network. The direct objective of the Trust is to hold the shares on behalf of the Consumers, subject to the provisions of the Trust Deed and the outcome of ownership reviews.

Brief company history

AEL began in March 1906 when the Timaru Borough Council entered a contract with Scott Brothers of Christchurch to light the town with electricity. The price for this contract was £750 per year for four hours of light per night – except when the moon shone.

In 1915 the council purchased the Scott Brothers' electricity generator and a year later another generator was installed and about 580 customers had been signed up.

All electricity developments were in town until 1921 when a meeting of country delegates decided to form a South Canterbury Electric Power Board. The board set about forming a viable electricity supply enterprise across the province.

The South Canterbury Electric Power Board and the Timaru Borough Council agreed for the power board to purchase the town supply. However, the town's residents voted against the proposal. From that day, February 29, 1924, the Timaru Electricity Department, and the power board continued their separate paths.

The Timaru Borough Council purchased all its electricity from the SC Electric Power Board. This was from the Lake Coleridge power station supply which was made available at Temuka for distribution throughout Timaru and South Canterbury.

The two organisations grew and developed in their separate franchise areas until the Government industry reforms of 1992 prompted the separate bodies to look again at the issue of amalgamation.

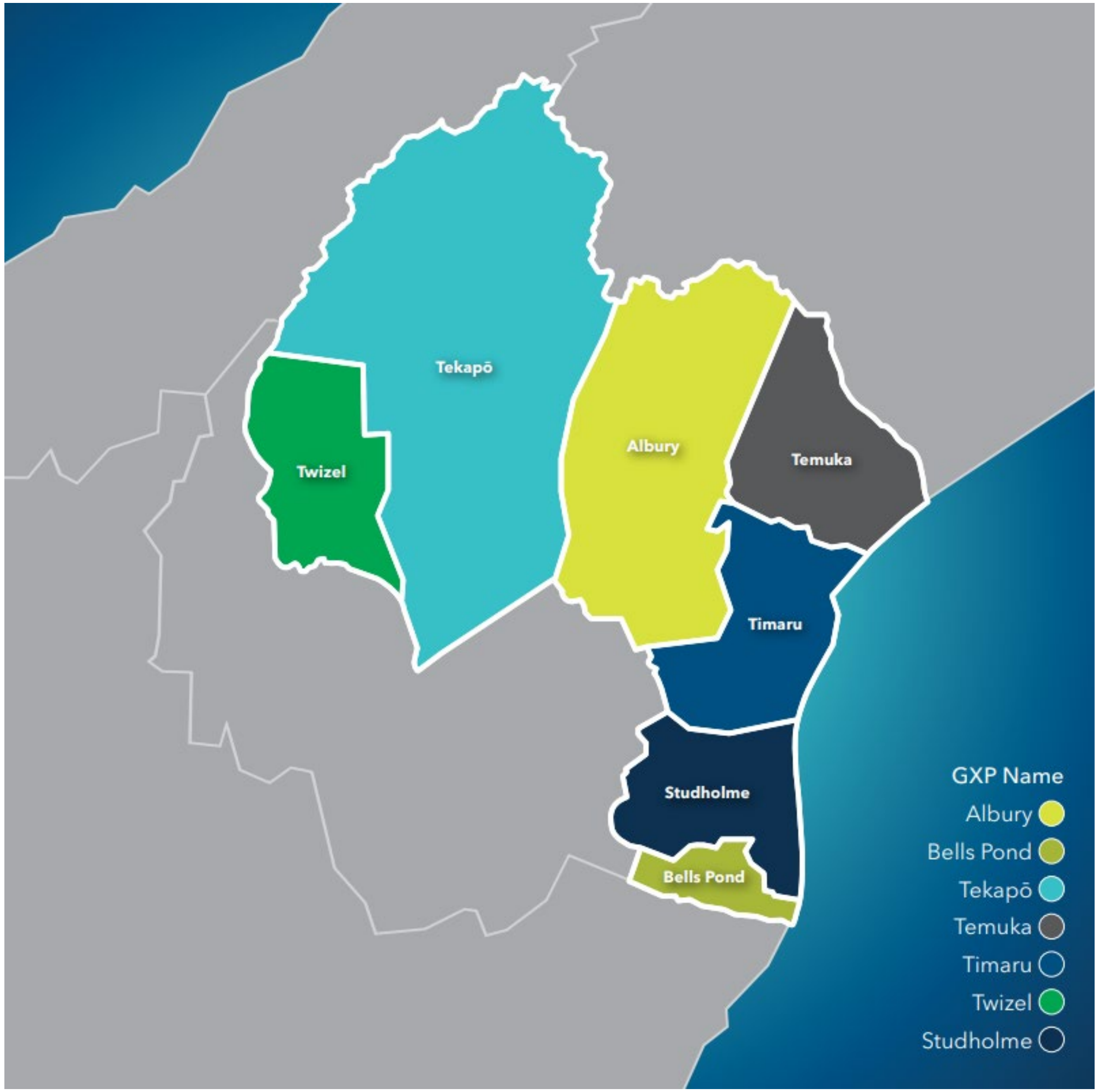
In the 1980s, the Labour Government introduced a series of economic reforms, designed to improve accountability and efficiency. It soon become clear to South Canterbury community leaders that Timaru Electricity Ltd and the South Canterbury Electric Power Board should merge.

A significant step in the 1992 merger and formation of AEL was the creation of a truly representative, community owned company, with its shares allocated to the three local government bodies – and the creation of a new body to represent and hold shares on behalf of consumers.

The Timaru District Council gained proportionally more shares because of its previous sole ownership of Timaru Electricity but the outcome ensured broad representation of these parties via their shareholdings:

- Timaru District Holdings Limited 47.5% shares
- LineTrust South Canterbury 40.0% shares
- Waimate District Council 7.54% shares
- Mackenzie District Council 4.96% shares

Our electricity network boundaries are from the Rangitata River in the north, to the Waitaki River in the south, and from the East Coast to Mount Cook in the west. The area stretches over 10,000 km2.



AEL currently has an annual turnover (total revenue) of $80.3 million and total assets of $345.9 million. AEL's network supplies over 33,500 connected customers with approximately 812 gigawatt hours (GWh) of electricity per annum. The network includes 7 grid exit points (GXPs).

Regulated Business

AEL is regulated by the New Zealand Government and the regulatory regime is administered by the Commerce Commission, known as a non-exempt Electricity Distribution Business (EDB). AEL's regulated revenue and quality standards are determined by the Commerce Commission on a five-yearly basis.

Unregulated Business

AEL's unregulated business activities are operated through the following subsidiaries, associates or divisions:

NETcon Limited – Up until October 2023, NETcon operated as a stand-alone company. It was responsible for the construction and maintenance of substations, overhead and underground lines and associated equipment for AEL. NETcon and AEL have now been amalgamated into one business.

Alpine Data Networks (division) – owns and operates fibre optic telecommunications networks running alongside AEL's electrical network. The fibre optic networks provide AEL with a high-speed communications platform as well as enabling the provision of ultra-fast internet access services to commercial customers.

Infratec Limited (100%) – In prior years, Infratec specialised in design, construction and maintenance for all electrical management and supply requirements. In xxx the New Zealand business was sold to Infratec New Zealand, a division of WEL Networks. Infratec is in the process of delivering its final project in the Pacific Islands and will then be wound up.

On Metering Limited (50%) - On Metering Limited (OML) is a joint venture company between two South Island distribution companies, AEL and Network Tasman Limited. On Metering is a member of the SmartCo Group which is deploying over 200,000 meters across New Zealand.

Directors' review

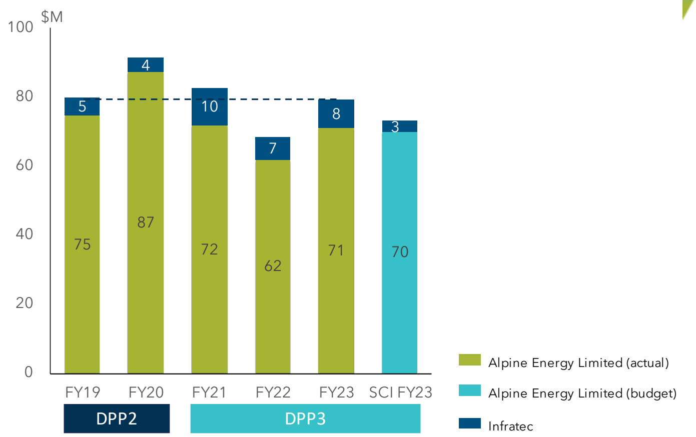
Financial Performance analysis

The group has published its Annual Report in August 2023 for the financial year ended 31 March 2023. The financial performance review is summarised below:

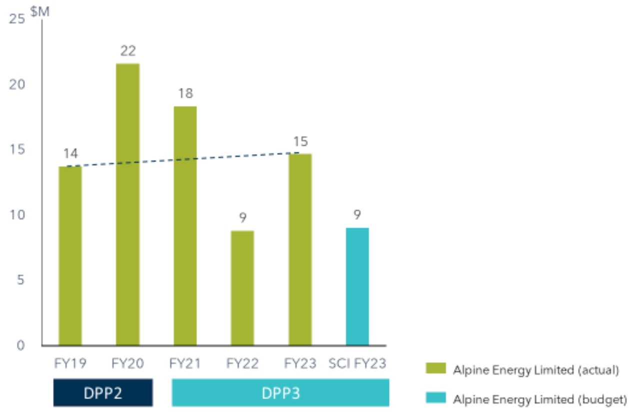
- The level of revenue decreased from $80M in Year Ending 2019 down to $79M in the Year Ending 2023.
- Operating Profit After Tax increased 7% from $14M in Year Ending 2019 up to $15M in the Year Ending 2023.
- Total Shareholders' Funds increased 35% from $143M in Year Ending 2019 up to $193M in the Year Ending 2023.

- Earnings Per Share increased 9% from 33 cents per share in Year Ending 2019 up to 36 cents per share in the Year Ending 2023. It should be noted that over the five-year trend period, Earnings Per Share has fluctuated largely for the same reasons as operating profit over tax, with wash ups from DPP2 coming through FY21 and FY22.
- The lower results reported in FY22 were due to the significant wet spring and summer as well as Covid-19 and its impact on Infratec's projects in the Pacific.

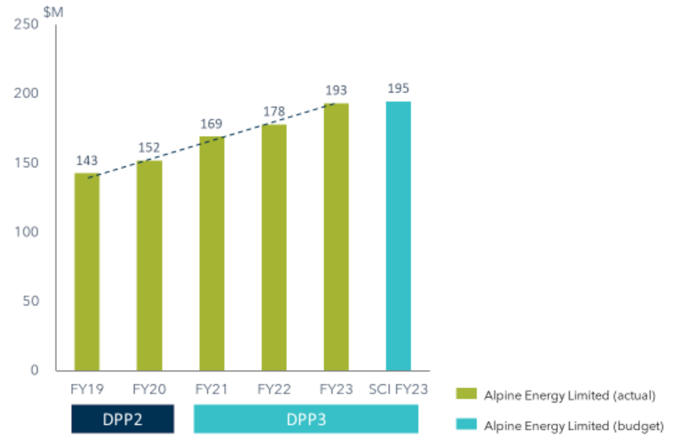
Total group revenue



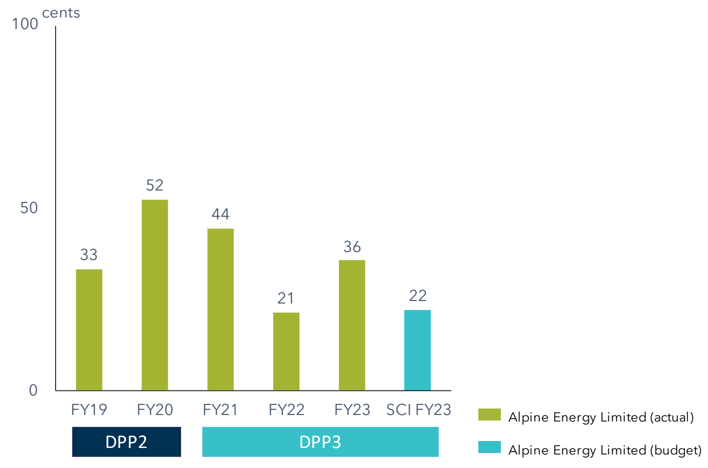
Operating profit after tax



Total shareholders' funds



Earnings Per Share



Reliability of Service

SAIDI and SAIFI performance measures ascertain the reliability of the network. Where maximum caps for SAIDI and/or SAIFI are breached, there are financial penalties levied.

Per the SAIDI and SAIFI performance over the review period provided below, the reliability of the network has comfortably exceeded the expectations of the regulator.

SAIDI (System Average Interruption Duration Index)

Planned SAIDI (average minutes per interruption)*	YE 2023	YE 2022	YE 2021
Maximum Cap	824.87	824.87	824.87
Target	54.99	54.99	54.99
Result	69.36	78.39	87.55
Unplanned SAIDI (average minutes per interruption)	**YE 2023**	**YE 2022**	**YE 2021**
Maximum Cap	124.71	124.71	124.71
Target	91.88	91.88	91.88
Result	92.94	89.32	77.48

**Five-year limit under DPP 3*

SAIFI (System Average Interruption Frequency Index)

Planned SAIFI (interruptions per customer)*	**YE 2023**	**YE 2022**	**YE 2021**
Maximum Cap	3.493	3.493	3.493
Target	0.70	0.70	0.70
Result	0.322	0.244	0.258
Unplanned SAIFI (interruptions per customer)	**YE 2023**	**YE 2022**	**YE 2021**
Maximum Cap	1.197	1.197	1.197
Target	1.20	1.20	1.20
Result	0.827	0.711	0.635

*Five-year limit under DPP 3

Trust ownership options

1. Trust Ownership (100% Trust ownership of shares, status quo)

   This is the model currently in practice. All of the shares in AEL are held in Trust for the benefit of consumers. Five persons elected from the community operate the Trust. Elections are held every three years. Every LTSC beneficiary can vote or run for election themself. Trustees look after the interests of all consumers. Decisions about the company remain in local control. Every year the LTSC participates in the formulation of the company's Statement of Corporate Intent, providing an opportunity to input into the AEL's strategic direction and engagement. Included is a requirement for AEL to engage with shareholders throughout the year. Under this system, consumers can expect to benefit from the most efficient network costs as trust beneficiaries receive direct benefits by way of discounts on power accounts. The current ownership model focuses on the interests of present and future consumers.

2. Mixed Ownership (Distribution or sale part of shares)

   Under this model, the shares would be divided between individual consumers and the Trust. Depending on the distribution of shares, the Trust would have a greater or lesser influence on the direction of the company, and the relationship between consumers and the network company might or might not have a local focus. Consumers would experience a taste of both forms of ownership, but probably not the greatest benefit of either. Administration would be more complex.

3. Individual Ownership (Distribution of 100% of shares to existing consumers)

   Under this model, all the shares in AEL would be issued to individual consumers, who would then become individual shareholders. After-tax benefit from the profitable business activity would be received as a dividend, and would extend to anyone who owned shares, even if they ceased to be consumers. Individual shareholders, no matter where they lived, would have the usual rights of shareholders in other companies to elect directors, attend general meetings, receive dividends, sell shares, etc. Consumers would no longer have a collaborative voice or benefit from receiving dividends if they sold their shares. Experience in other geographical regions has shown that many consumers are likely to sell their shares. Eventual ownership and decision making could easily come from outside of South Canterbury.

4. Private Ownership (Sale of 100% of shares)

   Under this model the Trust would sell the company (AEL) and distribute the proceeds among existing consumers or hold the proceeds in Trust. In the event of an outright sale, it would then limit consumers ability to influence company decisions or to regain control of the company at a future date. There would be no foreseeable benefit to consumers from any profitable business activity unless they were shareholders in the company that purchased AEL. The overall relationship between the network company and its consumers, would be similar to that of direct customer ownership after several years of trading shares publicly.

Directors specific response to clause 4.1 of LineTrust South Canterbury trust deed

The Directors specific responses to the matters specified on clause 4.1, and which are to be contained within the report, are:

a) *An analysis of the performance of the Company to the date of the report, together with a discussion of the advantages and disadvantages of continued Trust ownership;*

Directors' comment: The analysis of AEL's performance is included in this report and the benchmarking from PwC. The advantages and disadvantages are discussed earlier in this report. The Directors consider that the Company's operating performance has been good over the last five years and has demonstrated consistent growth in earnings and value.

b) *If a distribution of shares is recommended, a draft Share Allocation Plan detailing:*

   - *the manner in which and the Consumers to whom the shares (if any) and assets constituting the Trust Fund are to be distributed and such shares and assets may be distributed to a greater or lesser extent to some or all of the Consumers;*

- *the manner in which and the Consumers to whom the proceeds of the sale of shares (if any) received as a result of a disposal of shares are to be distributed and such proceeds may be distributed to a greater or lesser extent to some or all of the Consumers;*

Directors' comment: The distribution of shares is not recommended.

a) *a summary of the professional advice (if any) obtained in respect of the preparation of the report.*

Directors' comment: No external professional advice has been obtained in respect of the preparation of this report.

b) *A statement as to whether the directors have had regard to any views expressed by the public with respect to ownership.*

Directors' comment: AEL directors have given regard to the public consultation undertaken in 2019 whereby Timaru District Holdings Limited proposed to sell its shares. Of the submissions received, 501 were opposed, 32 mixed/neutral and 40 in favour. A petition was further launched to contest the proposal to sell its shareholding in AEL.[1]

Recommendation

After considering the main outcomes of the above, being:

- AEL's strong performance and efficiency
- The desire of consumers to continue with AEL ownership
- The vision of current Trustees that ensures AEL contributes to the growth of South Canterbury

AEL Directors have discussed the matter of the LTSC and its ongoing role.

The following recommendation represents AEL Board's view:

That the Directors of AEL recommend that LTSC continues with its current shareholding in AEL.

[1] https://www.stuff.co.nz/timaru-herald/news/109277586/pressure-mounting-on-council-to-abandon-alpine-energy-share-sale-proposal

Annexure A - Requirement of the trust deed

The Deed of Trust extract is included for reference below:

1. REVIEW

4.1. *Within 3 years from the date of the last review completed by the Trustees of the Initial Trust, the Trustees shall require the Directors to prepare a report considering proposals and available options for the future ownership of the shares. Such report shall contain the following detail:*

a) *an analysis of the performance of the Company to the date of the report, together with a discussion of the advantages and disadvantages of continued Trust ownership;*

b) *if a distribution of shares is recommended, a draft Share Allocation Plan detailing:*

- *the manner in which and the Consumers to whom the shares (if any) and assets constituting the Trust Fund are to be distributed and such shares and assets may be distributed to a greater or lesser extent to some or all of the Consumers;*
- *the manner in which and the Consumers to whom the proceeds of the sale of shares (if any) received as a result of a disposal of shares are to be distributed and such proceeds may be distributed to a greater or lesser extent to some or all of the Consumers;*

c) *a summary of the professional advice (if any) obtained in respect of the preparation of the report.*

d) *a statement as to whether the directors have had regard to any views expressed by the public with respect to ownership.*

4.2. *The Trustees shall comment on the report to the Directors and upon completion of their review of the report, the Trustees shall make the report available to the public together with a summary of their comments. ['available to the public' means making the information available for inspection at any office of the Trust or any office of the Company or at any other place in the District on normal business hours on any business day, after giving 3 days' notice of the place(s) and times in a newspaper].*

4.3. *The Trustees and the Directors shall in respect of the report and no later than 1 month after the date of the report, implement the Special Consultative Procedure set-out in Schedule 2 of the Deed of Trust.*

4.4. *Following completion of the Special Consultative Procedure and not later than 6 months after the report date, the Trustees and the Directors shall meet and, after taking due account of the view expressed by the public and the Directors, the Trustees shall decide whether to:*

a) retain the shares in the Trust; or

b) dispose of a portion of the shares and retain the remainder of the Trust; or

c) dispose of all of the shares

4.5. If the shares are to be retained by the Trust, the Trustees shall notify the public by making the information available for inspection at any office of the Trust or any office of the Company or at any other place in the District on normal business hours on any business day, after giving 3 days' notice of the place(s) and times in a newspaper.

4.6. If the shares or any portion of them are to be distributed, the Trustees shall prepare a Share Allocation Plan in terms of Schedule 3 of the Deed of Trust.