

Ownership Review & Proposed Capital Distribution



 **MainPowerTrust**

*An Important Opportunity
to Comment on the Ownership
of Your Local Energy Network*

5 May 2006



The Trust Deed for the MainPower Trust requires a review of MainPower's ownership every six years and the preparation of a Capital Distribution Plan. This review is to ensure that the beneficiaries of the Trust have the opportunity to assess and comment on the appropriateness or desirability of continuing to have MainPower's shares held in Trust.

A "beneficiary" is a qualifying customer of MainPower New Zealand who has premises in the District that are connected to the MainPower New Zealand distribution network (but not including customers of the Kaiapoi Electricity network) as at 1 February 2006.

Independent Review of Company Performance

As you are probably aware, the electricity sector has seen some major changes since MainPower New Zealand Limited was formed in 1993.

Government legislation was passed in 1998 to require electricity trading companies to make a choice between continuing as energy retailers or selling their retail operations and becoming a distribution network operator (line company). Under the legislation, it is not possible for energy companies to be both a network operator and a retailer.

To weigh up the relative risks, the MainPower trustees commissioned an independent review of the ownership options for MainPower New Zealand Ltd. The review was undertaken by the financial consultants, PricewaterhouseCoopers, and a summary of the firm's finding is contained in this report (Pages 3-5).

Please make sure you read and understand the findings of the ownership review before making a submission.

The MainPower Trust Deed states that 60% of the capital of the Trust including the shares in MainPower will be distributed to qualifying MainPower customers and the MainPower Foundation unless, after public consultation, the Trustees determine that the distribution should not proceed.

The MainPower Directors, in reporting to the Trustees, have considered the implications of a widely distributed share structure at this stage of the Company's development. The Directors have also considered the impact on total electricity costs if the current Rebate Scheme is removed.
(see page 10)

DIRECTORY

Your MainPower Trustees

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In the context of the Capital Distribution Plan, MainPower Trust has retained PricewaterhouseCoopers to undertake an Ownership Review to assess the operating environment, performance and prospects of MainPower, as well as its ownership structure. Our key findings are summarised below.

Industry Developments and Issues

The Electricity Industry has undergone profound changes over the last decade, reflecting the desire of successive governments to increase industry efficiency for the ultimate benefit of consumers.

The most significant changes for MainPower were the requirement to divest its retail business in 1998 and the introduction of regulation in 2003, which encourages electricity lines businesses to reduce prices and maintain quality standards. In addition, greater regulatory scrutiny on line business operations is resulting in significantly higher compliance costs and also results in transparency over pricing, costs, returns and asset management practices, including communication with shareholders and consumers.

A major challenge for the lines sector over the next decade will be the need to renew core network assets which are reaching the end of their useful lives. This is happening at a time when there is growing demand for infrastructure resources, both labour and capital, and downward pressure on line charges.

As a consequence of regulation, many electricity lines businesses, including MainPower, are seeking to invest or expand investments in unregulated businesses in order to protect and grow their profits.

Regulation may also drive further merger and acquisition activity in the sector, or alternative means of deriving efficiencies such as the outsourcing of management, or the pursuit of growth on other networks.

Overall, regulation has created significant challenges for MainPower and other electricity lines businesses to preserve and enhance value in the future.

MainPower's Performance

The key findings from our comparison of MainPower's performance with similar lines businesses are as follows:

- MainPower has experienced average customer connection growth of 5% per annum over the last five years, significantly higher than the industry average.
- Revenue is consistent with the characteristics of the network (i.e., low customer density and low consumption). Revenue per customer (before rebates) is above the industry mean and at the upper end for similar lines businesses.

- MainPower’s operating costs are average or below average for similar lines businesses.
- MainPower has the highest Return on Investment (before rebates) among the similar lines businesses, well above the industry mean.
- MainPower’s system reliability compares favourably against similar lines businesses and the industry. The Company is planning changes to achieve further improvements in network reliability.

Rebates, which effectively represent shareholder returns, have been relatively steady since 2001, and after slight decreases in 2006 and 2007 are projected to increase gradually in future years.

MainPower Contracting’s earnings have reduced in the current year as a result of lower revenue and rising costs (labour and fuel). Cost pressures are likely to be typical for the industry. There may be some upside in future years as demand for contracting services increases while contracting resources remain scarce.

MainPower Contracting has recently acquired another contracting business (Electro Services) to help grow its market share in the upper South Island.

VirCom Energy Services is a successful joint venture providing meter services nationwide.

Overall group earnings have been relatively consistent over the last five years.

Risk Analysis

The greatest risk facing MainPower is declining profitability (and thus business value) under regulation if offsetting efficiencies or new income streams cannot be achieved, as well as the possibility of even more onerous regulation in the future.

There is a small but growing risk that rising electricity charges (particularly by retailers) will cause consumers to reduce electricity usage and explore alternatives, such as solar power.

MainPower may also face competition from other electricity lines businesses to capture growth within its region via investment in embedded networks.

Valuation

We have estimated the value of the MainPower Group at \$180 million, assuming a continuation of the current ownership structure. Value to an industry purchaser may be up to \$70 million higher as a result of synergies and other benefits.

Value is very sensitive to the required rate of return and the long term growth rate assumption, as well as the key uncertainty of the form of future regulation.

Trust Ownership

There is no evidence that Trust ownership impacts on Company value, but it is possible that Trusts will not act quickly to preserve value in the face of prospective value loss, compared with more commercially driven investors.

MainPower is performing well relative to similar electricity lines businesses and there is no evidence that Trust ownership has had a negative impact on the Company’s performance or value.

Capital Distribution Plan

We have assessed the pros and cons of a capital distribution as follows:

Pros	Cons
<ul style="list-style-type: none">• The Trust only has an 80 year life (to 2073), so at some point the capital distribution plan must proceed.• A full or partial takeover of MainPower, prior or subsequent to a distribution could lead to greater operating efficiency and lower prices for consumers.• The MainPower Foundation would provide a higher level of funding for community projects if this is desired.• Returns to beneficiaries (in the form of rebates) and thus value may be negatively impacted by regulation. The Distribution Plan enables current value to be crystallised and preserved.• Distribution proceeds could be invested by beneficiaries to balance the loss of rebates.	<ul style="list-style-type: none">• Consumers as at 1 February 2006 would receive capital but not former or future consumers. The community is transient and a one-off distribution at an arbitrary point in time may be viewed as unfair.• MainPower has performed well under the current ownership structure.• Ownership stability is important for optimum operating performance and business growth.• Loss of consumer rebates.• A takeover of MainPower may lead to loss of jobs and talent in the community.• Current structure provides a stable platform for the Company to focus on operations rather than shareholder issues and defensive strategies if shares were widely held.

Consumers should consider deferring the Capital Distribution Plan if it is considered that the company has realistic future opportunities to materially enhance the value of the business or value cannot be maximised at this time.

If a distribution is supported, the rational approach is to sell the business to a third party purchaser to realise a control premium prior to any distribution.

Distribution of shares would result in unstable ownership at least in the short term, which would make operating conditions difficult for management.

On balance, we believe the current level of regulatory uncertainty may prohibit shareholder value from being maximised upon a sale of the businesses. We therefore suggest that the proposed capital distribution be deferred until potential value outcomes are more certain.

Restrictions

This summary of our Ownership Review dated March 2006 (“the Summary”) is provided for the benefit of the beneficiaries of the MainPower Trust to assist in assessing the merits of the proposed Capital Distribution.

The Summary is not otherwise intended for general circulation, distribution or publication, nor is it to be used for any purpose without our written permission in each specific instance. PricewaterhouseCoopers assumes no responsibility or liability for losses suffered by MainPower Trust, its beneficiaries, or any unauthorised user as a result of the use of this Summary contrary to the provisions of this section.

We have not conducted an audit or verified the financial information and other material provided as a basis for our review. Accordingly, we accept no responsibility or liability for losses suffered by any party as a result of our reliance on such information and material. We are unable to express an opinion as to whether future results will approximate those in the financial projections we have relied upon, as forecasts are based on estimates and assumptions regarding future events, which, by their nature, are not able to be independently substantiated.

We reserve the right to review and amend all calculations and opinions included or referred to in this Summary in light of any information existing at the date of this report, which subsequently becomes known to us.

The various assumptions and analysis underpinning this report may not be relevant once the process has been completed, and therefore should not be relied upon at a later date.



What Does a 60 % Capital Distribution Mean for Customers?

Under an allocation of shares in MainPower New Zealand Ltd:

- each residential customer would receive approximately 471 shares at an estimated value of \$5.92 each, but the actual value could be determined only by the market and could be higher or lower than this amount.
- each residential customer would also receive approximately \$95.00 in cash from the MainPower Trust fund.
- customers would no longer receive a rebate. The current annual value of this for a residential customer using 8000kW per annum is \$152.00.
- shareholders would be entitled to dividends. These would vary from year to year depending on the profitability of the company.
- 40% of the shares in MainPower New Zealand Ltd would continue to be held by the MainPower Trust.
- 20% of the shares in MainPower New Zealand Ltd would be vested in the MainPower Foundation, an energy-related charitable organisation that would be formed if the distribution went ahead. The Foundation would have Trustees appointed by the three District Councils in the MainPower area.



60% Capital Distribution Plan

The Trust Deed requires a review of ownership every six years and requires the Trustees to prepare a Distribution Plan. This review is to ensure that the beneficiaries of the Trust have the opportunity to assess and comment on the appropriateness or desirability of continued Trust ownership of the shares.

- 1) Pursuant to clause 8.1 of the Deed of Settlement Trust dated 24 October 1995, as amended in the Deed of Amendment of the Trust dated 18 March 2002, ("the Trust Deed"), the Trustees are required to initiate a 60% capital distribution plan commencing on 1 February 2006.

A roll of qualifying customers has been prepared as at 1 February 2006 in accordance with the Trust Deed.

- 2) The plan is that:
 - unless the final decision of the Trustees in accordance with the consultative procedure is not to proceed with the 60% Capital Distribution or unless the result of a poll prevents the Trustees from making that distribution, then
 - 60% of the capital of the Trust comprising shares in MainPower New Zealand Limited and other Trust assets will be distributed to qualifying customers in accordance with the Trust Deed as follows:
 - (i) 20% of the value of the capital of the Trust Fund will be distributed to the Trustees of the MainPower Foundation (to be formed), and
 - (ii) 0.5% of the value of the capital of the Trust Fund will be distributed to the Trustees of the Entitlements Trust (to be formed), and
 - (iii) 39.5% of the value of the capital of the Trust Fund will be distributed to qualifying customers in accordance with the capital allocation criteria as set out in schedule 5 of the Trust Deed.

If the final decision of the Trustees following with the consultative procedure is to proceed with the 60% capital distribution plan there are then 21 days in which 5% of qualifying customers may requisition a poll in accordance with the terms of the Trust Deed. If no such poll is requisitioned the distribution will be carried out within one month of the expiration of the 21 day period. If a poll is requisitioned within the 21 day period and the result of the poll does not prevent the distribution, then the distribution will be made within one month of the poll result being declared.

If the 60% capital distribution plan is proceeded with, 18,240,000 shares in MainPower New Zealand Limited will be distributed, together with 60% of the balance of the Trust's assets which will be in cash (approximate value \$2.46 million) to qualifying customers, allocated in the same proportion as the shares.





- 3) The Board will put in place appropriate share trading arrangements which will be tax effective, and maximise where appropriate the value represented by the distribution. Any shares forming part of the distribution should be tradeable in a genuine contestable manner. The Board will determine and put in place a share trading arrangement based on these principles at the appropriate time. The Board is also of the view that an independent share registry, and not the company, should administer any share trading arrangement.

The allocation of the Approved Capital Distribution Amount will be made as follows:

- To MainPower Foundation 33.3%
- To qualifying residential customers 56%
- To MainPower Entitlements Trust 0.8%
- To qualifying non-residential customers 9.9%

After the allocation to the MainPower Foundation and MainPower Entitlements Trust, 85% of the remainder is to be allocated to qualifying residential customers and 15% to qualifying non-residential customers.

Qualifying non-residential customers comprise - farming / commercial, irrigation, industrial, and street lighting customers.

The allocation to these non-residential customers will be made in broad bands of consumption, except for irrigation customers where the allocation will be made in bands based on the pump motor size connected.

- 4) **Details of proposed communication with qualifying customers on the 60% intended capital distribution**

Preliminary advice was mailed to all qualifying customers during March 2006.

This formal notice of the proposal has been mailed to all qualifying customers in May 2006. In addition formal notice of the proposal will be publicly advertised in newspapers circulating in the North Canterbury / Kaikoura area.

The full distribution plan documentation may be viewed from the date of this notice at the service centres of the Waimakariri District Council, Hurunui District Council and Kaikoura District Council and at the following public libraries:

Kaikoura, Oxford, Rangiora, Kaiapoi, Amberley, Hanmer Springs

and also at the offices of the Trust secretary at Helmore Bowron & Scott, Solicitors, 9 Good Street, Rangiora.



Public meetings will be held at Kaiapoi, Rangiora, Oxford, Culverden, Amberley, Kaikoura and Cheviot at the times, dates and places following:

Kaiapoi At the Cam and Mill Rooms, Community Centre, Sewell Street, Kaiapoi
on [Monday 22 May 2006 at 7pm](#)

Kaikoura At the Supper Room, next to the Kaikoura District Council, 32 Esplanade, Kaikoura
on [Tuesday 23 May 2006 at 7pm](#)

Amberley At St John's Hall, Carters Road, next to the Hurunui District Council, Amberley
on [Wednesday 24 May 2006 at 7pm](#)

Oxford At the A&P Room, Town Hall, Main Street, Oxford
on [Thursday 25 May 2006 at 7pm](#)

Cheviot At the Trust Hotel, SH1, Cheviot
on [Monday 29 May 2006 at 7pm](#)

Rangiora At the Rangiora Rugby Club Rooms, Ashley Street, Rangiora
on [Tuesday 30 May 2006 at 7pm](#)

Culverden At the Community Centre (Amuri Area School), School Road, Culverden
on [Wednesday 31 May 2006 at 7pm](#)

Persons interested, may make submissions on the proposal to the Trustees no later than Friday 23 June 2006. Submissions should be forwarded to the secretary, MainPower Trust, PO Box 370, Rangiora, or care of the offices of Helmore Bowron & Scott, Solicitors, 9 Good Street, Rangiora, Fax 03 3118011 or e-mail irm@helmores-law.co.nz.

Submissions will be considered by the Trustees in meetings open to the public. Persons who have made a written submission will be given the opportunity if they so wish, to be heard by the Trustees. All submissions should include the submitter's full name, address and contact telephone number and also confirmation as to whether or not the submitter wishes to attend before the Trustees to speak to his or her submission. All written submissions will be available to the public.

The final decision of the Trustees on the proposal will be made at a meeting of the Trustees to be held on Monday 31 July 2006 at 3pm. This meeting will be open to the public.

The submissions will be considered at meetings to be held at the Waimakariri District Council meeting room High Street, Rangiora as follows:

Date: Monday 10 July 2006
Time: 2pm - 6pm and 7pm - 9pm

Date: Wednesday 12 July 2006
Time: 1pm - 5pm

- 5) If the final decision of the Trustees in accordance with the consultative procedure is to proceed with the 60% intended capital distribution plan, it is open for 5% or more of qualifying customers to requisition a poll to oppose the distribution. The requisitioning of the poll is to be carried out in accordance with the provisions of schedule 7 of the Trust Deed.
- 6) The directors of MainPower New Zealand Limited have supplied the Trustees with the following certificate pursuant to the Trust Deed. The recommendation contained in the certificate was the unanimous view of the directors.

B.R. Hassall
Trust Chairman
24 April 2006

Directors' Certificate



The Trust Deed requires the Trustees to ask the directors of MainPower New Zealand Ltd to make available to the Trust a certificate stating whether they support a distribution or whether they oppose a distribution.

The directors have provided a certificate, which shows that they oppose the distribution. In opposing the distribution the directors advise that the impact of a distribution would be as follows:

The Distribution would result in the removal of MainPower's Rebate Scheme. The impact of removing the rebate scheme would be:

- the increase in distribution line services charges for residential customers consuming 8000 units per annum would be 53.5%.
- the total cost of electricity would be expected to increase by 12.5% for residential consumers consuming 8000 units per annum.

MAINPOWER NEW ZEALAND LIMITED

60% CAPITAL DISTRIBUTION PLAN - 1 FEBRUARY 2006

DIRECTORS' CERTIFICATE

1. This Certificate is provided pursuant to Rule 4(c)(vi) of Schedule 4 of the Trust Deed.
2. The Directors' position on the Capital Distribution has been determined in accordance with their fiduciary duty to act in the best interests of MainPower.
3. Directors' support for the continuation of 100% ownership by the MainPower Trust is consistent with the Board's Vision for MainPower.

"We will be a leading electricity and energy services business, committed to customer value and our region's prosperity."

4. Directors, when formulating their view on the 60% Capital Distribution Plan, concluded:
 - That the availability of a safe, secure and reliable electricity network at a time when MainPower is experiencing unprecedented demand for new network development and capacity, and the delivery of excellence in customer service will be better served through on-going customer and community ownership represented by the MainPower Trust;
 - That MainPower's Rebate Scheme should be retained. A Capital Distribution will result in the cessation of the current Rebate Scheme, which has had the effect of providing customers with line service charges at very favourable levels;
 - That a tightly-held shareholding structure rather than one that is widely distributed and potentially unstable, is more advantageous to the Board at this stage of the Company's development.

therefore

the Directors unanimously oppose the 60% Intended Capital Distribution

The Directors reserve the right to change their position on this matter if circumstances dictate that the conclusions reached would no longer be in the best interests of MainPower.



WYNTON GILL COX
Chairman



PETER ANTONY COX
Deputy Chairman




ANTHONY CHARLES KING
Director



ROBERT REX WILLIAMS
Director



JUDITH ANNE HOBAN
Director



ALLAN BERGE
Managing Director

Dated: 27 March 2006

Submission on Ownership Review - MainPower Trust

Please post to: **The Trustees**
MainPower Trust
PO Box 370
RANGIORA

Or Facsimile: 03 3118011

Or e-mail: irm@helmores-law.co.nz

1. This is the submission of:

Name: _____

Address: _____

Telephone: _____

2. The submitter wishes to / does not wish to (*delete one*) attend before the Trustees to speak to this submission.

3. Please note that your submission will be made public.

If you wish any of your contact details to be concealed, please let us know.

(add pages if necessary)

Signature of Submitter: _____

Date: _____

Preferred day to be heard (*please tick one box only*)

Monday 10 July 2006 2.00 - 6.00pm 7.00 - 9.00pm

Wednesday 12 July 2006 1.00 - 5.00pm

Presentations are normally about 10-15 minutes each.

NOTE: Confirmation will be given by the Trust of the time allocated.

PLEASE RETURN BY FRIDAY 23 JUNE 2006



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Rangiora

