

Northpower Electric
Power Trust

OWNERSHIP

REVIEW

of the
shares
in

NORTHPOWER LIMITED

NORTHPOWER LTD

OWNERSHIP REVIEW

REPORT BY THE DIRECTORS OF
NORTHPOWER LTD

AND COMMENTS ON THE
REPORT BY THE

Northpower Electric
Power Trust

CONTENTS

| | <i>Page Reference</i> |
|-------------------------------------|-----------------------|
| Introduction | <i>a</i> |
| Comments by the Trustees | <i>b - d</i> |
| Northpower Directors' Report | <i>1 - 13</i> |
| Public Submissions | <i>i</i> |

Introduction

Our electricity lines company, Northpower Ltd is owned by its consumers – those people and businesses connected to the network and receiving electricity through the Northpower lines.

The consumers' interests as owners, are safeguarded by the Northpower Electric Power Trust.

Five trustees are elected by the voters of the Whangarei District and two are elected by the voters of the Kaipara District. The last election took place in November 2004 and the next election will be later this year, in November 2007.

The present Trustees are:

| | |
|--------------------|---|
| Whangarei District | E A Angelo (Chairman) D A Culham K R Provan W E Rossiter A Shaw |
| Kaipara District | R J Drake (Deputy Chairman) L D Glamuzina |
| Trust Secretary | Plus Chartered Accountants Ltd |

Your elected trustees have two main responsibilities. The first is to appoint Directors to Northpower Ltd, agree with them on the objectives for the company each year and to monitor the performance of the company to ensure it properly serves the electricity consumers of Whangarei and Kaipara.

The second (and equally important) responsibility of trustees is to receive dividends from Northpower Ltd and to distribute them in accordance with the Trust Deed.

The Trustees report publicly each year to consumers on how they have carried out their ownership responsibilities and on their plans for the following year. The 2006 Trust reports and accounts can be found at www.northpower.co.nz/ownership.php

The ownership review process commences with the publication of this report and the public is now invited to make submissions to the Northpower Electric Power Trust on the ownership of the shares in Northpower Ltd.

Comments of the Trustees on the Report of the Directors on the Ownership of the Shares in Northpower Limited

A. OVERVIEW

Pursuant to an Establishment Plan approved by the Minister of Energy on 17 October 1990 and the vesting of the assets of the North Auckland Electric Power Board in Northpower Limited (the Company) on 1 May 1993, the shares in the Company were issued to the seven Trustees of the Northpower Electric Power Trust (the Trust) whose beneficiaries are the consumers of the Company.

The Trust Deed provides that within four years of the date of the Deed (29 March 1993), and then within every five years thereafter, the Trustees shall require the Directors of the Company to prepare a report considering proposals and options for ownership of the shares in the Company.

Such report shall contain (Clause 4.1)

- 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 Trust ownership;
- b) An analysis of the various ownership options considered including without limitation, a share distribution to consumers or electors, a sale of shares to the public, a sale of shares to institutional investors and retention by the Trust;
- c) A comparison of the performance of the Company with the performance of other line companies;
- d) The conclusions of the Directors as to the most appropriate form of ownership together with an indication as to whether the conclusions are unanimous and if the decision is not unanimous, a summary of the views of the dissenting Directors shall be included;
- e) The matters contained in Clause 4.6 if a distribution of shares is recommended;
- f) A summary of the professional advice (if any) obtained in respect of the preparation of the report; and
- g) A statement as to whether or not the Directors have had regard to any views expressed by the public with respect to ownership.

Clause 4.2 requires the Trustees to comment on the report to the Directors of the Company and upon completion of this review the Trustees shall make the report available to the public together with a summary of their comments.

The Trustees and the Directors of the Company shall in respect of the report and no later than one month after the date of the report (report dated 1 February 2007, therefore by 1 March 2007) implement the public consultative procedures.

Finally, under Clause 4.4

Following completion of the public consultative procedure and in any event no later than six months after the report required by Clause 4.1 is completed, the Trustees and the Directors shall meet and, after taking due account of the views 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 in the Trust; or
- c) Dispose of all the shares.

If the shares are to be retained by the Trust the Trustees shall notify the public.

The Trust Deed provides for the public to be consulted and for people who make submissions to be given a reasonable opportunity to be heard by the Trustees.

Submissions in writing must be in the hands of the Trustees within one month of advertising the public consultative procedure. Following that date public meetings shall be arranged as necessary to hear submissions.

B. COMMENTS

1. On 1 February 2007 the Trustees received the report from the Directors on the ownership review of the Company.
2. The Trustees comment as follows:
 - a) The Trustees confirm that the report includes the requirements of the Trust Deed.
 - b) The Trustees would like to draw particular attention to the financial performance of Northpower which has returned profits to shareholders while at the same time held electricity line prices at competitive levels.

- c) Ownership options including the advantages and disadvantages of Trust ownership are set out on pages 8 & 9 of the Directors' Report. The Directors analysis of the ownership options are on page 10 of their report and the Directors have concluded that the most appropriate form of ownership is for the ownership of the shares in the Company to remain with the Trust (page 12).

The Trustees believe that the Directors' Report has clearly identified the alternative ownership options.

Further information on the Company may be found in the Company's Annual Report which is available from the offices of the Company, the office of the Trust, or from the Northpower website – www.northpower.co.nz

- d) The Trustees look forward to the public consultative procedure and on its completion, to working with the Directors to finalise the necessary decision to be taken by the Trustees on the ownership of the shares in the Company.

E A ANGELO
Chairman of Trustees

Trustees: E A Angelo
D A Culham
R J Drake
L D Glamuzina
K R Provan
W E Rossiter
A Shaw

Whangarei
March 2007

2007



OWNERSHIP

REVIEW

NORTHPOWER OWNERSHIP REVIEW

(A) ANALYSIS OF NORTHPOWER LTD'S PERFORMANCE AND ADVANTAGES AND DISADVANTAGES OF TRUST OWNERSHIP

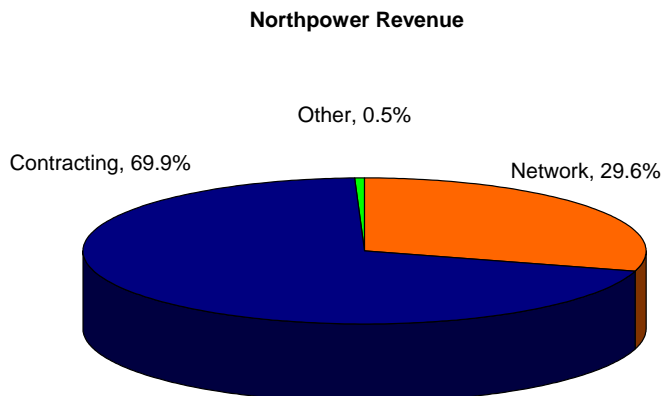
Introduction

Northpower was corporatised on 1 May 1993 under the requirements of the Energy Companies Act 1992.

In 1997 and 2002 the Northpower Trust, as required by the Trust Deed, undertook an ownership review. After consultation with the community, the Trust decided to retain the current ownership and financial structure of the Company.

In November 1998, in compliance with the Electricity Industry Reform Act 1998, Northpower sold its electricity retailing business to ECNZ and ultimately Meridian Energy. Since becoming solely a line company, Northpower has concentrated its focus on its Network and growing the Contracting business.

Both the Company's lines business and the electricity network contracting operation have produced strong results over the years. Contracting activities provided 70% of Northpower's total revenue in the last financial year, up 29% from the previous year. Northpower's network business revenue grew 7% in the last financial year.



The Contracting business complements Northpower's Lines business, which concentrates on providing a high quality, low cost electricity network to Northland. Recently Northpower has built and planned significant new capacity into its network to ensure adequate supply for the industrial and residential growth in the region.

Financial Performance

Northpower's financial performance is summarised in the following table:

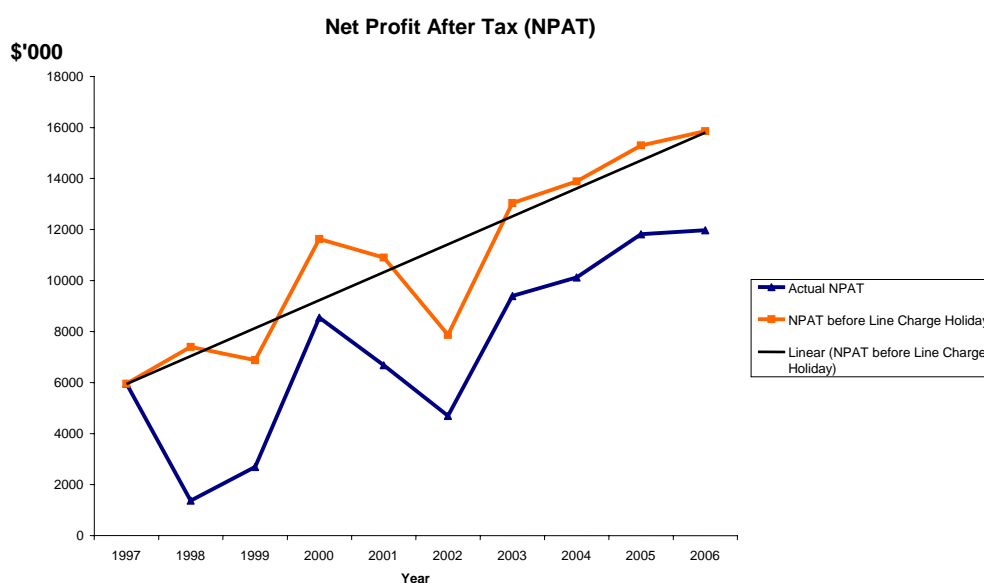
| | | 31/3/2006 | 31/3/2005 | 31/3/2004 | 31/3/2003 | 31/3/2002 |
|-----------------------------|--------|-----------|-----------|-----------|-----------|-----------|
| Equity | | \$205M | \$190M | \$183M | \$150M | \$144M |
| NPAT | | \$11.9M | \$11.7M | \$10.0M | \$9.4M | \$4.7M |
| NPAT Shareholders funds | Actual | 6.05% | 6.30% | 6.08% | 6.38% | 3.30% |
| | Target | 5.00% | 3.5% | 3.5% | 3.5% | 3.5% |
| EBIT Total Capital employed | Actual | 7.33% | 8.30% | 8.09% | 8.33% | 4.58% |
| | Target | 6.50% | 5.00% | 5.00% | 5.00% | 5.00% |
| NEPT Dividend | | \$4.2M | \$4.1M | \$3.5M | \$3.3M | \$1.6M |

In addition to the above, since 1998 the Company has provided financial benefits to consumers via a yearly line charge holiday. The last four years are summarised in the following table:

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---------------------|--------|--------|--------|--------|--------|
| Line Charge Holiday | \$6.1M | \$6.1M | \$6.1M | \$6.2M | \$5.3M |

Overall the Company has returned \$113.4 million to its electricity consumers and owners since 1993.

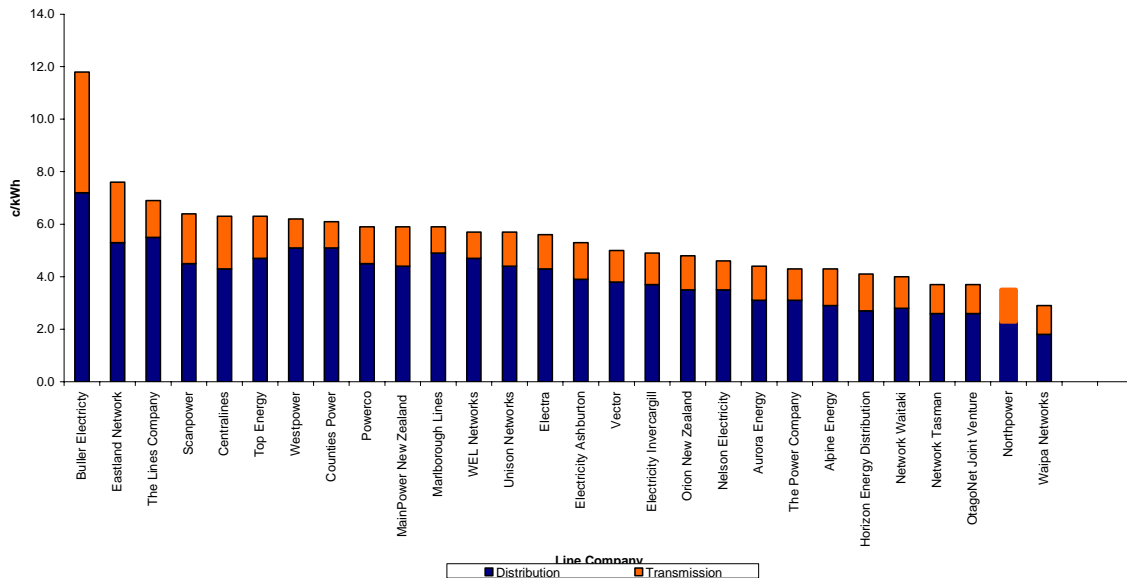
The Company has continued to improve its financial performance.



Line Charges

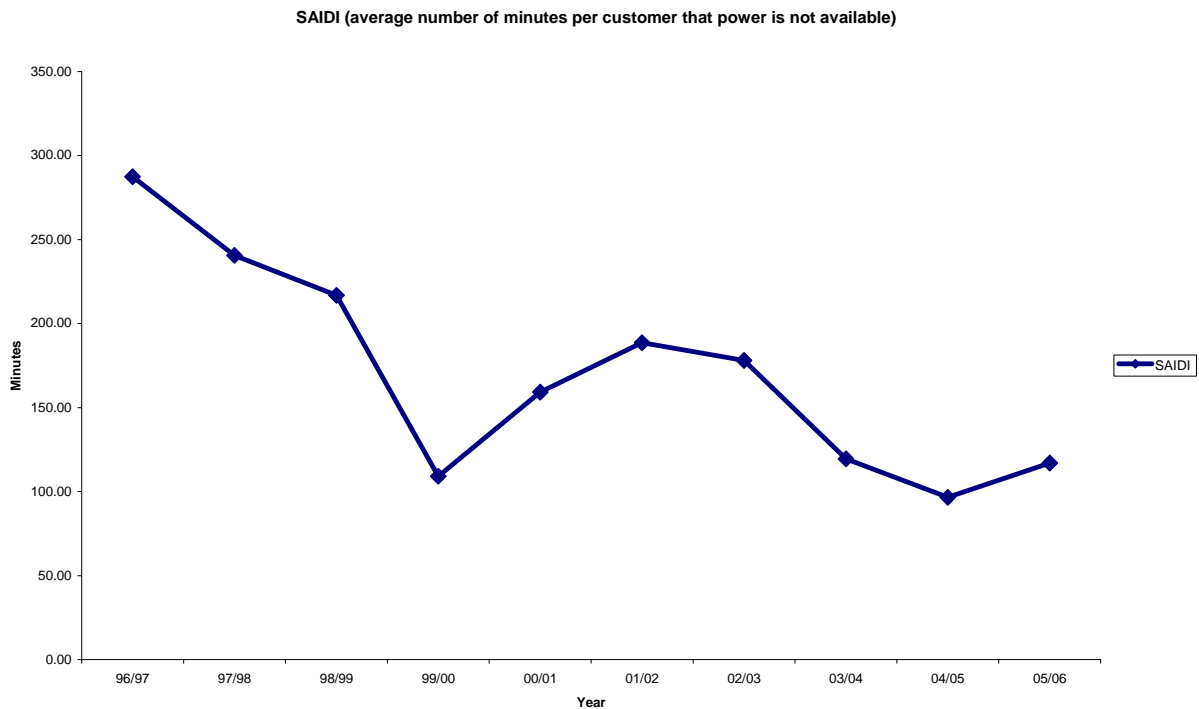
Northpower is one of only three lines companies permitted by the Commerce Commission to increase lines charges by the maximum factor of CPI +1% due to our low prices and high productivity. Our actual overall increase for the 2005/6 year was 1.7%, keeping Northpower under its regulated threshold. The Company is well below industry average pricing for electricity delivery in New Zealand. The industry continues to be squeezed by operating and construction cost increases well above CPI. However, Northpower is enjoying steady growth on the Network and is confident of keeping prices within regulated thresholds.

Distribution and Transmission Revenue 2005
 source: PricewaterhouseCoopers-Electricity Line Business, 2005 Information Disclosure Compendium
 (October 2005)



Supply Reliability

Quality network maintenance and investment in new technologies have resulted in a consistent downward trend of SAIDI figures over the years. SAIDI is the measure of the average number of minutes customers are without power in a year due to faults or planned outages. Northpower works hard all year round to ensure the network is reliable and the Company achieves the annual targets. The fault target for the year was 90 minutes with Northpower coming in slightly under on 89.5 minutes. While this year was not a record low it was consistent with the average annual reduction of 5.8 minutes over the last 13 years. This means customers are likely to have around an hour and a half less fault outage time now, than in 1993.



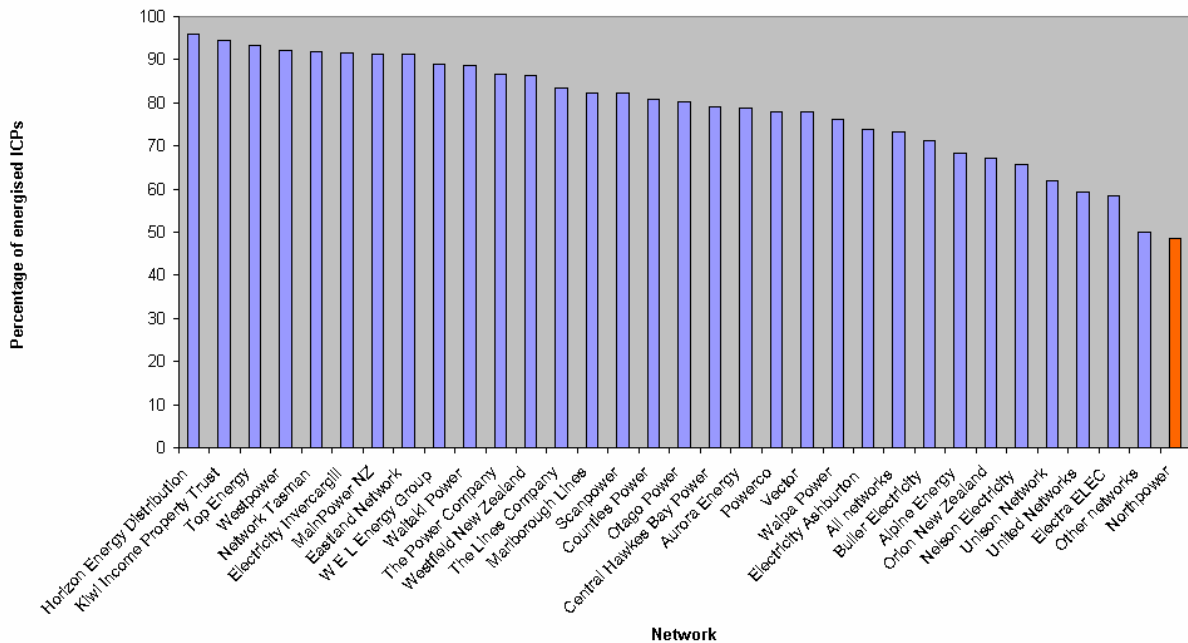
Retailer Competition

Since the Government forced the separation of Distribution and Retail businesses in 1998, the Company has encouraged competition on its network. This is because, under the new market structure, a single Retail Operator with no competition had the potential to control both the price and service levels for consumers. Northpower also provides a high level of support to both consumers and retailers in order to minimise the adverse effects of the separation of the distribution and retail businesses.

There are now 5 Retailers operating in Northpower's area, resulting in strong competition for customers on the Northpower network. This competitiveness has resulted in over half of consumers switching to alternative retailers. Northpower is the only line business in New Zealand that has achieved this result.

This is demonstrated on the graph following, by the incumbent retailer on Northpower's network (Meridian) having a lower market share than the incumbents on any of the other networks. Meridian purchased Northpower's retail arm in 1998 but now service only 48.5% of consumer connections.

Percentage of Incumbent Retailer Market Share by Network



Northpower continues to encourage Electricity Retailer competition by keeping consumers well informed of their options, and by working with Retailers to make it easier for them to trade over the network.

Staff

The Company has continued to increase its workforce to meet the work growth, and is now approaching 700 employees. Northpower recognises that its main strength is its employees, and it is due to the dedicated effort and hassle-free service work ethic that staff provide to clients, that we have been able to utilise opportunities for growing Northpower’s business.

Considerable effort has gone into developing highly skilled teams to work on live lines, and the Company has also increased its training of new staff in order to provide for future requirements.

The introduction of new management techniques and systems, with a continued focus on investing in our staff development has seen productivity and quality improve.

Safety and Quality

Our strong focus on ensuring a safe work place for all staff continues, and Northpower is totally committed to eliminating all work-related injuries. The process of eliminating hazards and accidents has resulted in better job management, more efficient work practices and a higher quality of work.

Northpower is committed to quality, and operates an ISO 9001 certified Quality System. A recent three-year audit of our Quality System confirmed Northpower's status as an ISO 9001 operator. The Company has also now completed the first stage in its progression to obtain full certification to the ISO 14001 environmental standard.

Customer Satisfaction

Northpower has maintained a high level of customer satisfaction over the years. Colmar Brunton continues to conduct an independent survey of consumers each year.

The following table summarises results:-

| Overall Satisfaction | | | | | |
|-----------------------------|------|------|------|------|------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Residential | 87% | 89% | 89% | 94% | 91% |
| Commercial | 89% | 87% | 87% | 96% | 94% |
| | | | | | |

Reliability of supply remains the key deliverable for a lines company. Northpower continues to perform at a very high level on this key attribute.

The following table summarises results:-

| Overall Reliability | | | | | |
|----------------------------|------|------|------|------|--|
| | 2006 | 2005 | 2004 | 2003 | |
| Residential | 95% | 96% | 92% | 97% | |
| Commercial | 94% | 88% | 92% | 91% | |

Acknowledgements

Northpower achieved National recognition for our work on public safety education with a 'Certificate of Recognition' for our school safety programme in electrical safety at the 2004 Electricity Engineers Association Safety Awards.

Northpower entered the 2006 Northland Business Awards in September and won the sustainable business award and was a finalist in the workplace safety category.

The Trade Coach initiative and the work that this team does were recognised in June with the awarding of the 2006 Electricity Engineers Association annual Safety Award.

Employees participated in a national best places to work survey in late 2006, and we have been acknowledged as one of New Zealand's top 25 large workplaces as a result of the feedback provided by staff into the survey.

The Future

Northpower is committed to growing a sustainable business based upon sound commercial principles that provide increasing benefits to its Northland owners and network users.

The network business is focused on ensuring that a safe, reliable, hassle-free and cost-effective service is provided. Systems and procedures have been consolidated. Work continues in ensuring the network business is as cost-effective as possible using sophisticated Asset Management systems. The company recognises there would be a considerable benefit from using Northpower's asset management skills, and systems to manage additional electricity networks or other infrastructure assets. The market in this area is understandably cautious, but the Company will seek to develop appropriate opportunities in the longer term.

Northpower will continue to encourage Retailer competition on its network to ensure that end-use consumers receive the best possible choice and an ongoing price competitive energy supply. The Company is also committed to work with the Retailers/Generators to improve service delivery to consumers.

New contracting markets are expected to open up for Northpower for network management, construction, maintenance and electrical services in New Zealand, and overseas. There is an ongoing demand for top quality skilled line staff and the Company sees a potential opportunity for Northland youths willing to be trained locally and then move on to other regions to work.

The outlook for Northpower is very positive, with the gains made in improved systems and further growth giving opportunities for staff to develop to their full potential in a regionally based Company. The benefits of this growth will provide spin-off effects for other Northland businesses and the Northland region in general.

Advantages of Trust Ownership

The following are the advantages of Trust ownership.

- (1) Local control ensures Company is operated in harmony with local communities' expectations.
- (2) Tariffs are kept to reasonable levels.
- (3) Company has local focus and incentive to ensure pass through costs, such as Transpower's charges, are minimised.
- (4) Option to change to another ownership is retained.
- (5) Customers/shareholders capture increasing valuation of Company.
- (6) New customers have equal rights.
- (7) Reduced exposure to regulatory changes that transfer value between customers and shareholders.
- (8) Single purpose Trust gives clear direction to company.
- (9) The local economy benefits directly

Disadvantages of Trust Ownership

- (1) Owners unable to sell their individual shares.
- (2) Perceived difficulty in obtaining equity investment. This perception is less prevalent now with a number of players seeking the opportunity to invest in Northpower over recent years.

- (3) Owners' representatives (the Trust) may not be driven by normal commercial objectives.
- (4) The strong preference for local control may prevent companies from achieving economies of scale through mergers.

Discussion of Advantages and Disadvantages

Northpower's control of electricity price increases is limited to the line charge component, which has fallen from 53% to 37% of the total price to most consumers. However, the Company has been able to have some influence on retail electricity prices by encouraging and facilitating competition between Energy Retailers on its network.

Northpower's persistent focus to keep non-competitive charges, such as for transmission, to a minimum from a Northland perspective, has been very successful. New electricity market structures have decreased Northpower's ability to take direct action in some areas. We are increasingly working with larger network companies, both private and Trust owned, in order to achieve better outcomes.

The Trust ownership ensured the increase in value of power companies from corporatisation was captured by Northpower's customers. We have observed that private ownership elsewhere has seen business value exploited. The value of lines companies has become relatively stable in recent years. However there continues to be significant value created by the contracting business. There is potential value in the industry through economies of scale and the opportunities to extend to other utilities, such as Telecommunications. It is uncertain, with increasing regulation, how much of this will be available to shareholders but the Trust ownership means benefits to customers is considered when evaluating opportunities.

(B) **ANALYSIS OF VARIOUS OWNERSHIP OPTIONS**

Introduction

The ownership options vary from a share distribution to consumers or electors, through to sale or retention by the Trust. Various hybrid forms of part share giveaway and Trust retention or sale, are possible.

Share Distribution

A share distribution could be 100% to customers or electors, which would quickly see the shares, accumulate in the hands of the major players in the NZ electricity industry. It would allow those who nominally own the Company to make their own decisions on what to do with the shares.

A partial share distribution would achieve a similar sort of result, although the cost of the process could become disproportionately high. It has been suggested that the cost of a share giveaway and public listing could cost 4% of the Company's worth.

Sale of Shares

The sale of the shares in the Company in whole or at least a controlling interest may see the maximum value obtained for the Company. If this path were to be considered, Directors would recommend we obtain professional advice on costs and possible returns.

Conclusion

One of the major advantages of Trust ownership was the ability to review the various ownership options after some years of experience, and then make a decision if any option was clearly superior. In the Directors' view, none of the alternative options has yet proved to be clearly superior. The industry is still in a period of change and during this period Trust ownership provides consumers with some additional influence on how they are affected by any changes.

(C) COMPARISON OF PERFORMANCE WITH OTHER ENERGY COMPANIES

Introduction

Under the Electricity Regulations each company is required to disclose information which enables comparisons between companies to be carried out. The information below is from independent accounting firm PriceWaterhouseCoopers latest compendium (Oct 2005)

When comparing distribution companies, relative performance between companies is often affected by company size, density of customer base, km of line installed, and rural or city geography, rather than ownership structure.

Northpower Profile

There are currently 28 line businesses in New Zealand. Northpower is ranked:-

- 8th largest by value of system assets (ODV \$136 million).
- 6th longest by system length (5,419Kms).
- 8th largest by number of customers (49,820).
- 14th in relation to customer density (9.2 customers per Km. reflects urban/rural nature).

Financial Performance

Northpower is the 7th largest in terms of total line charge income. Northpower also has one of the lowest line charges (distribution and transmission revenue) per unit consumed.

Northpower Net Profit after Tax was ranked 7th. This shows that the company still manages to make acceptable profits while keeping prices to customers down.

Line Performance

Northpower's reliability is ranked 11th best in the country, with a total of planned and unplanned interruptions of 113 minutes per customer over the year. The average for New Zealand is 190 minutes. Companies with mainly urban networks inherently score better than the more rural networks. Northpower has the third lowest Line loss ratio of 3.2% with the New Zealand average of 6.3%

Conclusion

Northpower has continued its high standard and consistently performs very favorably with other industry companies in all aspects of our operation, from financial returns through to customer service.

(D) **MOST APPROPRIATE FORM OF OWNERSHIP**

Having reviewed the performance of Northpower Ltd and compared this with other power companies with differing ownership forms, the Directors have concluded that the most appropriate form of ownership is for the ownership of the shares in the Company to remain with the Trust.

The Directors of Northpower Ltd are unanimous in their decision to recommend the retention of Trust ownership.

(E) **SHARE DISTRIBUTION**

A share distribution is not recommended.

(F) **SUMMARY OF PROFESSIONAL ADVICE OBTAINED**

No professional advice was obtained by the Directors in the preparation of this report.

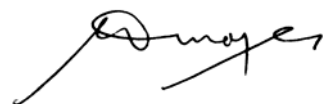
(G) **VIEWS OF THE PUBLIC**

While the Directors believe their recommendation will be supported by most customers, they have not undertaken any research specifically directed at ascertaining the views of the public with respect to ownership.

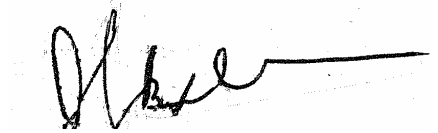
(H) **CONCLUSION**

The Directors are pleased to make this report and look forward to assisting the Trustees in the public consultative procedure.

W W Moyes
(Chairman of Directors)



D J Ballard
(Director)



N P Davies-Colley
(Director)



R L Steed
(Director)



J J Ward
(Director)



Submissions

Persons interested in the ownership issue are now invited to make submissions on this matter in accordance with the provisions of the Trust Deed.

Submissions should be in writing and addressed to:

Submissions to the Trustees
Northpower Electric Power Trust
P O Box 1609
WHANGAREI

Public submissions should be received at the above address no later than 4.00 pm on *30 April 2007*.

Submitters should indicate if they wish to be heard in support of their submission.

Following the receipt of submissions, the Trustees will arrange opportunities for submitters to be heard.

In accordance with the Trust Deed, these meetings will be open to the public and all written submissions will be available to the public.