

## Independent Auditor's Report

To the Board of Directors of Wellington Electricity Lines Limited

### Report on the Customised Price-Quality Path Proposal

We have been engaged by Wellington Electricity Lines Limited ('WELL') to conduct an assurance engagement on whether WELL's Customised Price Path Proposal dated 4 December 2017 (the 'CPP Proposal'), as supported by the CPP Submission information, complies with the Electricity Distribution Services Input Methodologies Determination 2012 (consolidated in February 2017) (the 'IM') subject to the modifications, exemptions and proposed variations requested by WELL (together referred to as the 'Modified Determination'). These modifications, exemptions and proposed variations are outlined in section 2.3 and 2.4 of the Regulatory Compliance Schedules of the CPP Proposal.

### Board of Director's Responsibilities

The Board of Directors is responsible for the preparation of the CPP Proposal in accordance with the Modified Determination. This responsibility includes the design, implementation and maintenance of internal control as is necessary to enable the preparation of the CPP Proposal that is free from material misstatement, whether due to fraud or error. In particular, Part 5, subpart 5.5.4 of the Modified Determination notes that the Board of Directors are responsible for ensuring that the information contained within the CPP Proposal has been derived and provided in accordance with the Modified Determination and that the assumptions made in respect of the forecast information for the next period in the CPP Proposal are reasonable.

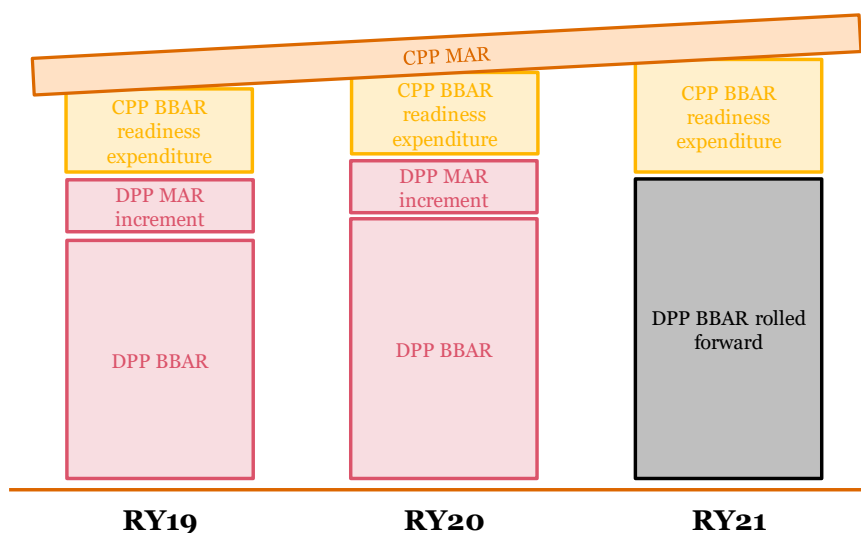
The 'next period' means the three year CPP period ending 31 March 2021.

### Auditor's Responsibility

Our responsibility is to express an opinion on the CPP Proposal as required by the Modified Determination and the Scope of Streamline CPP Model Audit outlined in Section 2.3.3 of the Regulatory Compliance Schedules of the CPP Proposal. Our engagement has been conducted in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000') issued by the External Reporting Board and the Standard on Assurance Engagements 3100: *Compliance Engagements* ('SAE 3100') issued by the External Reporting Board in order to provide reasonable assurance over the information extracted from previously published information and limited assurance over forecast information.

As set out in Section 2.1.4 of the Regulatory Compliance Schedules of the CPP, WELL has prepared the model supporting the CPP Proposal, using a building block approach, as shown opposite.

Our procedures have also followed this building block approach as set out below.





## **Default Price-Quality Path ('DPP') Building Block Allowable Revenue ('BBAR') and DPP Maximum Allowable Revenue ('MAR') increment information for Regulatory Year ('RY') 2019 and 2020**

This information in the model is extracted from information underlying the previous DPP model published by the Commerce Commission. We have performed procedures to obtain reasonable assurance that the previously published information has been extracted from those previous disclosures, in all material respects, in accordance with the input methodologies set out in the Modified Determination.

A reasonable assurance engagement involves performing procedures to obtain audit evidence about the matters on which we are required to form an opinion. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CPP Proposal, whether due to fraud, error or non-compliance with the Modified Determination. In making those risk assessments the auditor considers internal control relevant to WELL's preparation of the CPP Proposal in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WELL's internal control.

Where amounts and disclosures were previously published as part of a default price quality path, our procedures were limited to agreeing the amounts and disclosures to the underlying records, and, where possible, to the previously published and approved Default Price Path information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **DPP BBAR Roll Forward for RY2021**

The DPP BBAR roll forward information in the model was prepared in a manner consistent with the previous DPP Financial Model, rolled forward from the final year of the DPP regulatory period (RY2020) to RY2021 using inputs as specified in the Modified Determination and Scope of Streamline CPP Model Audit in Section 2.3.3 of the Regulatory Compliance Schedules of the CPP Proposal. Our procedures (as outlined under the heading 'limited assurance' below) have been undertaken to form an opinion as to whether anything has come to our attention that causes us to believe that the forecast information has not been compiled, in all material respects, in accordance with the methodologies set out in the Modified Determination and on the basis of the relevant disclosed assumptions. Our procedures were limited to the roll forward of the information obtained from the previous regulatory year with input adjustments made as set out in the Modified Determination.

### **Customised Price Path ('CPP') BBAR Readiness Expenditure**

The CPP BBAR readiness expenditure has been prepared by WELL in accordance with the input methodologies set out in the Modified Determination and in accordance with the disclosed and relevant assumptions, consistent with the applicable method and formulas applied in the CPP model previously published by the Commerce Commission:

- adjusted to reflect the IM amendments to Part 5 sub-part 3 of the IMs determined since the model was published as outlined in the Scope of Streamline CPP Model Audit outlined in section 2.3.3 of the Regulatory Compliance Schedules of the CPP Proposal; and
- using the inputs outlined in the Scope of Streamline CPP Model Audit outlined in section 2.3.3 of the Regulatory Compliance Schedules of the CPP Proposal.

Our procedures (as outlined under the heading 'limited assurance' below) in respect of the CPP BBAR readiness expenditure for RY2019, RY2020, and RY2021 have been undertaken to form an opinion as to whether anything has come to our attention that causes us to believe that the forecast information has not been compiled, in all material respects, in accordance with the methodologies set out in the Modified Determination and on the basis of the relevant disclosed assumptions.

### **CPP MAR**

The CPP MAR before tax in revenue date terms is calculated by WELL as an aggregation of:

- RY2019 and RY2020 DPP MAR before tax in revenue date terms;
- RY2021 DPP BBAR before tax in revenue date terms; and
- RY2019, RY2020, RY2021 readiness CPP BBAR before tax in revenue date terms



smoothed in present value terms consistent with the CPP MAR revenue cap method set out in clause 5.3.4 of the IMs.

Our procedures (as outlined under the heading 'limited assurance' below) in respect of the CPP MAR have been undertaken to form an opinion as to whether anything has come to our attention that causes us to believe that the forecast information has not been compiled, in all material respects, in accordance with the methodologies set out in the Modified Determination and on the basis of the relevant disclosed assumptions.

### **Limited assurance**

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included enquiries, observations of processes performed, inspection of documents, analytical procedures, and agreeing or reconciling with underlying records in order to conclude on the matters set out above.

Forecast financial information, including the basis and assumptions, is the sole responsibility of WELL. We accept no responsibility for them, or the ultimate accuracy and realisation of the forecasts. Furthermore, the forecast financial information is based on assumptions as disclosed in the CPP Proposal. Actual results are likely to be different from the forecast financial information since anticipated events frequently do not occur as expected as the variation could be material. As a result we do not guarantee or otherwise warrant or accept any responsibility for any variations between actual results and forecasts or for the achievement of forecasts.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Inherent Limitations**

Because of the inherent limitations in evidence gathering procedures and internal control and compliance systems, it is possible that fraud, error or non-compliance may occur and not be detected.

As the procedures performed in respect of WELL's compliance with the Modified Determination are undertaken on a test basis our assurance engagement cannot be relied on to detect all instances where WELL may not have complied with the Modified Determination.

In addition, the review procedures performed on the forecast financial information relating to the earthquake readiness expenditure for the next period, are not designed to detect all instances of non-compliance with the Modified Determination as they generally comprise making enquiries, primarily of the responsible party, and applying analytical and other review procedures.

The opinion expressed in this report has been formed on the above basis.

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements specified by the Modified Determination, as well as Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than in our capacity as auditor of the statutory financial statements, the provision of other assurance services including the audit of regulatory disclosure statements, taxation services and a temporary secondment to provide mechanical modelling assistance, we have no relationship with or interests in WEL or any of its subsidiaries. These services have not impaired our independence as auditor of the CPP Proposal.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued by the New

Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **Use of Report**

This report is provided solely for your use and solely for the purpose of preparing and presenting the CPP Proposal. We understand that a copy of our report has been requested by the Commerce Commission solely for the purpose of assessing the CPP Proposal. We agree that a copy of our report may be provided to the Commerce Commission and included in the CPP application. This report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written consent. We accept or assume no duty, responsibility or liability to any party, other than you, in connection with the report or this engagement including without limitation, liability for negligence in relation to the opinion expressed in this report.

## **Opinion**

This opinion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

In our opinion, in respect of the extraction of previously published information included in the CPP Proposal, as detailed above:

- the previously published information has been extracted from those previous disclosures, in all material respects, in accordance with the input methodologies set out in the Modified Determination; and
- the quantitative information provided in spreadsheets is properly compiled on the basis of the relevant underlying source information.

Based on the evidence obtained from the procedures performed in respect of the forecast information included in the CPP Proposal, as detailed above, nothing has come to our attention to suggest that:

- the forecast financial information relating to the next period has not been compiled, in all material respects, in accordance with the input methodologies set out in the Modified Determination; and
- the quantitative forecast information provided in spreadsheets is not properly compiled on the basis of relevant disclosed assumptions.

In addition:

- we have obtained all the information and explanations we have required; and
- as far as appears from an examination of them, proper records to enable the compilation of information required by Part 5, subpart 4 of the Modified Determination have been kept by WELL.

*Deloitte Limited*

**Chartered Accountants**

4 December 2017

Wellington, New Zealand