Independent Auditor's Report

To the Directors of WEL Networks Limited and the Commerce Commission

Assurance Report Pursuant to Electricity Distribution Information Disclosure Determination 2012

We have completed our reasonable assurance engagement in respect of the compliance of WEL Networks Limited (the 'Company') with the Electricity Distribution Disclosure Information Determination 2012 (the 'Information Disclosure Determination') for the disclosure year ended 31 March 2019 where we are required to opine on:

- whether the Company has complied, in all material respects, with the Information Disclosure Determination, in preparing the information disclosed under schedules 1 to 4, 5a to 5g, 6a and 6b, 7, the related party transactions information disclosed in Appendix A, and the explanatory notes disclosed in boxes 1 to 11 in Schedule 14 ('the Disclosure Information'); and
- whether the Company's basis for valuation of related party transactions ('valuation of related party transactions'), has complied, in all material respects, with clause 2.3.6 of the Information Disclosure Determination, and clauses 2.2.11(1)(g) and 2.2.11(5) of the Electricity Distribution Services Input Methodologies Determination 2012 ('the Input Methodologies Determination').

Opinion

In our opinion:

- As far as appears from our examination, proper records have been kept by the Company to enable the complete and accurate compilation of the Disclosure Information;
- The information used in the preparation of the Disclosure Information has been properly extracted from the Company's accounting and other records and has been sourced where appropriate, from the Company's financial and non-financial systems;
- The Company has complied, in all material respects, with the Information Disclosure Determination in preparing the Disclosure Information; and
- The basis for valuation of related-party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

Basis for Opinion

We conducted our engagement in accordance with ISAE (NZ) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and SAE 3100 (Revised) *Compliance Engagements* to obtain reasonable assurance that the Company has complied in all material respects with the Information Disclosure Determination and the Input Methodologies Determination in the preparation of the Schedules for the year ended 31 March 2019.

In forming our opinion we have obtained sufficient recorded evidence and all the information and explanations we have required.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) 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.

We are independent of the Company. Other than our role as financial statement auditor our firm carries out other services for the Company in the areas of regulatory advice, other advisory services and agreed upon procedures on disclosure information. The provision of these other services has not impaired our independence as auditor of the Company.

Our audit approach

Overview

Our assurance engagement is designed to obtain reasonable assurance about the Company's qualitative and quantitative compliance, in all material respects, with the Determination.

Quantitative materiality levels are determined for individual schedules included in the Disclosure Information based on the nature of the information set out in the schedules.

Profit based schedules –5% of Regulatory profit before tax
Asset based schedules –1% of Regulatory asset base
Performance based schedules – 5% of non-financial measures
Related party transactions – 2% of total related party transactions. Qualitative factors were also considered when assessing the arm's length valuation rules on related party transactions.

We have determined that there are three key assurance matters:

- Regulatory Asset Base
- Cost and Asset Allocation
- Related Party Transactions

Materiality

The scope of our assurance engagement was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our assurance engagement, the nature, timing and extent of our assurance procedures and to evaluate the effect of misstatements, both individually and in aggregate on the Disclosure Information as a whole.

Scope

Our procedures included analytical procedures, evaluating the appropriateness of assumptions used and whether they have been consistently applied, agreement of the Disclosure Information to, or reconciling with, source systems and underlying records, an assessment of the significant judgements made by the Company in the preparation of the Disclosure Information and valuing the related party transactions, and evaluation of the overall adequacy of the presentation of supporting information and explanations. These procedures have been undertaken to form an opinion as to whether the Company has complied, in all material respects, with the Information Disclosure Determination in the preparation of the Disclosure Information for the year ended 31 March 2019, and whether the basis for valuation of related party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement were of most significance in carrying out the assurance engagement during the current disclosure year. These matters were addressed in the context of our assurance engagement as a whole, and in forming our opinion. We do not provide a separate opinion on these matters.

Key assurance matter	How our procedures addressed the key assurance matter
Regulatory Asset Base The Regulatory Asset Base (RAB), as set out in Schedule 4, reflects the value of the Company's electricity distribution assets. These are valued using an indexed historic cost methodology prescribed by the Determination. It is a measure which is used widely and is key to measuring the Company's return on investment and therefore important when monitoring financial performance or setting electricity distribution prices. The RAB inputs, as set out in the Input Methodologies, are similar to those used in the measurement of fixed assets in the financial statements, however, there are a number of different requirements and complexities which require careful consideration. Due to the importance of the RAB within the regulatory regime, the incentives to overstate the RAB value, and complexities within the regulations, we have considered it to be a key area of focus.	We have obtained an understanding of the compliance requirements relevant to the regulatory asset base as set out in the Information Disclosure Determination (ID Determination) and the Input Methodologies (IMs). We have performed the following procedures: *Assets commissioned* • We reconciled the assets commissioned, as per the regulatory fixed asset register, to the asset additions disclosed in the audited annual financial statements and investigated material reconciling items; • We inspected the assets commissioned during the period, as per the regulatory fixed asset register, to identify any specific cost or asset type exclusions, as set out in the ID Determination, which are required to be removed from the RAB; • We tested a sample of assets commissioned during the disclosure period for appropriate asset category classification; *Depreciation* • We compared the standard asset lives by asset category to those set out in the IMs; • For assets with no standard asset lives we assessed the reasonableness of the lives used by reference to the accounting depreciation rates used in preparing the financial statements; • We verified the spreadsheet formula utilised to calculate regulatory depreciation expense is in line with IM clause 2.2.5; *Revaluation* • We recalculated the revaluation rate set out in the Input Methodologies using the relevant Consumer Price Index indices taken from the Statistics New Zealand website; • We tested the mathematical accuracy of the revaluation calculation performed by management; *Disposals* • We inspected the asset disposals within the accounting fixed asset register to ensure disposals in the RAB meet the definition of a disposal per the IMs. We have no matters to report from undertaking those procedures.

Key assurance matter	How our procedures addressed the key assurance matter
Cost and Asset Allocation The ID Determination relates to information concerning the supply of electricity distribution services. In addition to the regulated supply of electricity, WEL Networks Limited also supplies customers with other unregulated services such as fibre services. As set out in schedules 5d, 5e, 5f and 5g, costs and asset values that relate to electricity distribution services regulated under the ID determination should comprise: • all of the costs directly attributable to the regulated goods or services; and • an allocated portion of the costs that are not directly attributable. The IMs set out rules and processes for allocating costs and assets which are not directly attributable to either regulated or unregulated services. A number of screening tests apply which must be considered when deciding on the appropriate allocation method. The Company has applied the Accounting-Based Allocation Approach Methodology (ABAA) utilising proxy cost and asset allocators to allocate the asset values and operating costs that are not directly attributable where causal relationships could not be identified. Given the judgement involved in the application of the cost and asset allocation methodologies we consider it a key assurance matter.	We obtained an understanding of the Company's cost and asset allocation processes and the methodologies applied. Our procedures over cost and asset allocation included: • Reconciling the regulated and unregulated financial information to the audited financial statements; *Classification as directly/not directly attributable* • Considering the appropriateness of the costs allocated as directly attributable, based on the nature and our understanding of the business to determine the reasonableness of the directly attributable classification; • Testing a sample of transactions to ensure their classification as either directly attributable or not directly attributable costs are appropriate and in line with the ID determination; • Inspecting the fixed asset register to identify any asset classes which based on their nature and our understanding of the business could be considered assets directly attributable to a specific business unit; • Testing a sample of assets commissioned to ensure their classification as either directly attributable or not directly attributable are appropriate and in line with the ID determination by inspecting the related invoice; *Appropriateness of the allocators used for not directly attributable costs and assets* • Considering the appropriateness of the cost and asset causal and proxy allocators used in applying the ABAA to not directly attributable costs including inspecting supporting documentation and recalculating proxy allocators; • Understanding why causal relationships could not be identified in allocating some costs or assets and ensuring appropriate disclosure has been included outlining these in Schedule 14; • Recalculating the split between not directly attributable costs and asset values allocated to electricity distribution services and non-electricity distribution services. We have no matters to report from undertaking those procedures.
Related party transactions Disclosures over related party transactions including related party relationships, procurement policies/processes, application of these policies/processes and examples of market testing of transaction terms as required under the ID Determination and the IMs are set out in Appendix A. The ID Determination and the IM Determination require the Company to value its transactions with related parties, disclosed in Schedule 5b, in accordance with the principles-based approach to the arm's length valuation rule. This rule states that the value of goods or services acquired from a	We have obtained an understanding of the compliance requirements relevant to related party transactions as set out in the ID Determination and the IMs. We have ensured Schedule 5(b) and Appendix A includes all required disclosures including current procurement policies, descriptions of how they are applied in practice, representative example transactions and when and how market testing was last performed. We have performed the following procedures over Schedule 5(b) and Appendix A. *Completeness and accuracy of related party relationships and transactions* We have tested the completeness and accuracy of the related party relationships and transactions by:

Key assurance matter	How our procedures addressed the key assurance matter
related party cannot be greater than if it had been acquired under the terms of an arm's length transaction with an unrelated party, nor may it exceed the actual cost to the related party. A sale or supply to a related party cannot be valued at an amount less than if it had been sold or supplied under the terms of an arm's-length transaction with an unrelated party. Arm's-length valuation, as defined in the IM, is the value at which a transaction, with the same terms and conditions, would be entered into between a willing seller and a willing buyer who are unrelated and who are acting independently of each other and pursuing their own best interests. The Company is required to use an objective and independent measure to demonstrate compliance with the arm's-length principle. In the absence of an active market for similar transactions, assigning an objective arm's length value to a related party transaction is difficult and requires significant judgement. We have identified related party transactions at arm's-length as a key audit matter due to the judgement involved.	• Agreeing the disclosures within Schedule 5(b) to the audited financial statements for the year ended 31 March 2019 and to the accounting records, investigating any differences and determining whether any such differences are justified; and • Applying our understanding of the business structure against the related party definition in IM clause 1.1.4(2)(b) to assess management's identification of any "unregulated parts" of the entity. *Practical application of procurement policies* • Testing a sample of operating expenditure and capital expenditure transactions disclosed in Schedule 5(b) by inspecting supporting documentation to determine compliance with the disclosed procurement policy and practices. *Arm's length valuation rule* We obtained the Company's assessment of the available independent and objective measures used in supporting the arm's length valuation principle and performed the following procedures: • Re-performed the calculations and agreed key inputs and assumptions to supporting documentation for a sample of transactions; • Where benchmarking or other market information was used as independent and objective measures we assessed whether the related party transaction values fell within an acceptable range of 15%. Qualitative factors were considered in determining the appropriate acceptable range. We have no matters to report from undertaking those procedures.

Director's Responsibilities

The Directors are responsible on behalf of the Company for

- compliance with the Information Disclosure Determination and the valuation of related party transactions in accordance with the Information Disclosure Determination and the Input Methodologies Determination; and
- the identification of risks that threaten such compliance and controls which will mitigate those risks and monitor ongoing compliance.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the Company has complied, in all material respects, with the Information Disclosure Determination in the preparation of the Disclosure Information for the disclosure year ended 31 March 2019 and on whether the basis for valuation of related party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

Our engagement has been conducted in accordance with ISAE (NZ) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and SAE 3100 (Revised) *Compliance Engagements* which require that we plan and perform our procedures to obtain reasonable assurance about whether the Company has complied in all material respects with the Information Disclosure Determination in the preparation of the Disclosure Information for the disclosure year ended 31 March 2019, and whether the basis for valuation of related party transactions complies, in all material respects, with the Information Disclosure Determination and the Input Methodologies Determination.

An assurance engagement to report on the Company's compliance with the Information Disclosure Determination and the Input Methodologies Determination involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the requirements of the Information Disclosure Determination and the Input Methodologies Determination. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the requirements of the Information Disclosure Determination and the Input Methodologies Determination.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the disclosure year ended 31 March 2019 does not provide assurance on whether compliance with the requirements of the Information Disclosure Determination and the Input Methodologies Determination will continue in the future.

Who we report to

This report has been prepared for the Directors and the Commerce Commission in accordance with clause 2.8.1(1) of the Information Disclosure Determination and is provided solely to assist you in establishing that compliance requirements have been met. Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors and the Commerce Commission, or for any purpose other than that for which it was prepared.

The engagement partner on the assurance engagement resulting in this independent auditor's report is Elizabeth Adriana (Adri) Smit.

PricewaterhouseCoopers.

Chartered Accountants
30 August 2019

Christchurch, New Zealand