

Independent Assurance Report

To the directors of Westpower Limited and to the Commerce Commission

The Auditor-General is the auditor of Westpower Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to provide an opinion, on his behalf, on:

- whether the information ('the Disclosure Information') required to be disclosed in accordance with the Electricity Distribution Information Disclosure Determination 2012, as amended by the Information Disclosure exemption: Disclosure and auditing of reliability information within schedule 10, issued by the Commerce Commission on 9 April 2020 ('the Information Disclosure Determination, as amended') for the disclosure year ended 31 March 2020, has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended.
- The Disclosure Information required to be reported by the company, and audited by the Auditor-General, under the Information Disclosure Determination, as amended, in schedules 1 to 4, 5a to 5g, 6a and 6b, 7, the disclosure that shows the connection between the Electricity Distribution Business (EDB) and the related parties with which it has had related party transactions in the disclosure year, the system average interruption duration index ('SAIDI') and system average interruption frequency index ('SAIFI') information disclosed in Schedule 10 and the explanatory notes in boxes 1 to 11, in Schedule 14.
- whether the company's basis for valuation of related party transactions ('the Related Party Transaction Information') for the disclosure year ended 31 March 2020, has been prepared, in all material respects, in accordance with clause 2.3.6 of the Information Disclosure Determination, as amended, 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 an examination of them, proper records to enable the complete and accurate compilation of the Disclosure Information have been kept by the company;
- as far as appears from an examination, 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 Disclosure Information complies, in all material respects, with the Information Disclosure Determination, as amended; and

- the Related Party Transaction Information complies, in all material respects, with the Information Disclosure Determination, as amended, and the Input Methodologies Determination.

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

Basis for opinion

We conducted our engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements 3100 (Revised): *Assurance Engagements on Compliance* issued by the New Zealand Auditing and Assurance Standards Board. Copies of these standards are available on the External Reporting Board's website.

These standards require that we comply with ethical requirements and plan and perform our assurance engagement to provide reasonable assurance about whether the Disclosure Information has been prepared, in all material respects, with the Information Disclosure Determination, as amended, and about whether the Related Party Transaction Information has been prepared, in all material respects, with the Information Disclosure Determination, as amended, and the Input Methodologies Determination. Reasonable assurance is a high level of assurance.

We have performed procedures to obtain evidence about the amounts and disclosures in the Disclosure Information, and the basis of valuation in the Related Party Transaction Information. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Disclosure Information and the Related Party Transaction Information, whether due to fraud, error or non-compliance with the Information Disclosure Determination, as amended, or the Input Methodologies Determination. In making those risk assessments, we considered internal control relevant to the company's preparation of the Disclosure Information and the Related Party Transaction Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Scope and inherent limitations

Because of the inherent limitations of a reasonable assurance engagement, and the test basis of the procedures performed, it is possible that fraud, error or non-compliance may occur and not be detected.

We did not examine every transaction, adjustment or event underlying the Disclosure Information or the Related Party Transaction Information, nor do we guarantee complete accuracy of the Disclosure Information or the Related Party Transaction Information. Also we did not evaluate the security and controls over the electronic publication of the Disclosure Information or the Related Party Transaction Information.

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

Key assurance matters

Key assurance matters are those matters that, in our professional judgement, required significant attention when carrying out the assurance engagement during the current disclosure year. These matters were addressed in the context of our engagement, 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
<p>Valuation of related-party transactions at arm’s-length</p> <p>The Information Disclosure Determination, as amended and the Input Methodologies Determination place a requirement on the company to value related-party procurement transactions at a value not greater than arm’s-length. In other words, 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.</p> <p>In the absence of an active market for related-party transactions, assignment of an objective arm’s-length value to a related-party transaction is difficult.</p> <p>This is a key assurance matter because it is a new requirement that involves considerable judgement by company personnel. In turn, the verification of the appropriate assignment of an objective arm’s-length valuation to related-party transactions requires the exercise of significant professional judgement by the auditor.</p>	<p>We obtained an understanding of the company’s approach to identifying and valuing related-party transactions at arm’s-length in accordance with the Information Disclosure Determination, as amended and the Input Methodologies Determination. We confirmed the approach used is in accordance with the Information Disclosure Determination, as amended and the Input Methodologies Determination.</p> <p>The procedures we carried out, to satisfy ourselves that related-party transactions are appropriately identified and valued at a value not greater than at arm’s-length included:</p> <ul style="list-style-type: none"> • testing the completeness of the related-parties identified through review of Board minutes, review of Companies Office records, and related-parties identified through detailed testing of transactions and balances in the annual financial statements audit; • testing samples of transactions, with related parties for the different categories of procurement, for compliance with the policies for approval and negotiation of related-party transactions; • comparing the prices charged in related party transactions by benchmarking with the unit prices charged to non-related parties and reviewing the company’s correspondence with the Commerce Commission that clarified any interpretation issues on whether the related-party transactions are conducted at arm’s-length; and • confirming the material accuracy of related party values disclosed, and compliance of their calculation with the Information Disclosure Determination, as amended and the Input Methodologies Determination.

Key assurance matter	How our procedures addressed the key assurance matter
<p>Cost allocations</p> <p>The Information Disclosure Determination, as amended and the Input Methodologies Determination place a requirement on the company to allocate indirect costs between its regulated and non-regulated business.</p> <p>The Input Methodologies Determination sets out the rules and processes for allocating non-directly attributable costs.</p> <p>This is a key assurance matter because of the professional judgement involved in determining and applying the method to allocate non-directly attributable costs to the company's regulated services.</p>	<p>We obtained an understanding of the company's cost allocation approach to allocate indirect costs to the regulated and non-regulated business. We confirmed the approach used is accordance with the Information Disclosure Determination, as amended and the Input Methodologies Determination.</p> <p>The procedures we carried out, to satisfy ourselves that indirect costs were correctly allocated, included:</p> <ul style="list-style-type: none"> • reconciling the regulated and unregulated financial information to the audited financial statements for the year ended 31 March 2020, to identify the costs that required allocation to the regulated business; • reviewing the costs by business unit, based on the nature of the costs and on our understanding of the business, to determine the reasonableness of the directly attributable costs by the business unit; • testing a sample of invoices to ensure their classification as either directly attributable or non-directly attributable costs are appropriate and in compliance with the Information Disclosure Determination, as amended and the Input Methodologies Determination; • reviewing the staff cost allocation to the non-regulatory business, based on their nature and on our understanding of the business; • reviewing the company's judgements in determining and applying appropriate methods to allocate non-directly attributable costs and assessing if the method complies with the Information Disclosure Determination, as amended and the Input Methodologies Determination; and • testing a sample of cost allocation calculations.
<p>Accuracy of the number and duration of electricity outages</p> <p>The company has a combination of manual and automated systems to identify outages and to record the duration of outages. This outage information is used to report the company's Report on Network Reliability in Schedule 10. If this information is inaccurate then the</p>	<p>We have obtained an understanding of the company's system to record electricity outages, and their duration. This included review of the company's definition of interruptions, planned interruptions and major event days.</p> <p>Our procedures to assess the adequacy of the company's methods to identify and record electricity outages and their duration included:</p>

Key assurance matter	How our procedures addressed the key assurance matter
<p>measures of the reliability of the network could be materially misstated.</p> <p>This is a key assurance matter because information on the frequency and duration of outages is an important measure of the reliability of electricity supply. Relatively small inaccuracies can have a significant impact on the reliability thresholds against which company performance is assessed.</p> <p>There can also be significant consequences if the company breaches the reliability thresholds.</p> <p>The Commission has issued an Exemption notice which, if it applies excludes the assurance report from coverage of the information, in Schedule 10 of the ID determination, for any issues arising out of the EDB's recording of SAIDI, SAIFI and number of interruptions due to successive interruptions. We need to ensure that the company meets the criteria for the Exemption to apply, including that it makes the necessary disclosures so the exclusion to the assurance opinion applies.</p>	<ul style="list-style-type: none"> • performing an assessment of the reliability of the manual and automated processes to record the details of interruptions to supply; • obtaining internal and external information on interruptions to supply to gain assurance that interruptions to supply were recorded. Internal and external information sources included works orders for contractors, media reports, and Board minutes; • testing a sample of interruptions to supply to source records to conclude on their accuracy of calculation, and the appropriateness of the categorisation of the cause of the interruption and whether it was planned or unplanned, and that the cause of the interruptions is correctly categorised; • checked the SAIDI and SAIFI ratios were correctly calculated in accordance with the Information Disclosure Determination, as amended, and the Input Methodologies Determination; • obtained explanations for all significant variances to forecast; and • testing the accuracy of the number of connections to the Electricity Authority's register. <p>With respect to the Exemption, we:</p> <ul style="list-style-type: none"> • obtained and documented our understanding of the company's methods by which electricity outages and their duration are recorded where an outage event results in successive interruptions of supply; • compared this to the documented process that the company followed in the previous year; and • identified potential incidences of successive interruptions of supply to ensure that the company's methods, by which electricity outages and their duration are recorded where an outage event results in successive interruptions of supply, was the same for both years. <p>Having carried out these procedures, and in assessing the likelihood of reported electricity outages and their</p>

Key assurance matter	How our procedures addressed the key assurance matter
	duration being materially misstated in the Disclosure Information, we have no matters to report.

Directors' responsibility for the preparation of the Disclosure Information and Related Party Transaction Information

The directors of the company are responsible for:

- the preparation of the Disclosure Information in accordance with the Information Disclosure Determination, as amended; and
- the Related Party Transaction Information in accordance with the Information Disclosure Determination, as amended, and the Input Methodologies Determination.

The directors are responsible for such internal control as the directors determine is necessary to enable the preparation of the Disclosure Information and the Related Party Transaction Information that are free from material misstatement.

Our responsibility for the audit of the Disclosure Information and the Related Party Transaction Information

Our responsibility is to express an opinion that provides reasonable assurance on whether:

- the Disclosure Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended; and
- the Related Party Transaction Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended, and the Input Methodologies Determination.

Independence and quality control

When carrying out the engagement, we complied with:

- the Auditor-General's independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board;
- the independence requirements specified in the Information Disclosure Determination, as amended; and
- the Auditor-General's quality control requirements, which incorporate the quality control requirements of 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.

The Auditor-General, and his employees, and Audit New Zealand and its employees may deal with the company and its subsidiaries on normal terms within the ordinary course of trading activities of the company and its subsidiaries. Other than any dealings on normal terms within the ordinary course of business, this engagement, and the annual audit of the company's financial statements, we have no relationship with or interests in the company and its subsidiaries.

Use of this report

This independent assurance report has been prepared solely for the directors of the company and for the Commerce Commission for the purpose of providing those parties with reasonable assurance about whether the Disclosure Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended and whether the Related Party Transaction Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination, as amended, and the Input Methodologies Determination. We disclaim any assumption of responsibility for any reliance on this report to any person other than the directors of the company or the Commerce Commission, or for any other purpose than that for which it was prepared.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand
6 November 2020