



Independent Assurance Report

To the Directors of Alpine Energy Limited and the Commerce Commission

Assurance Report Pursuant to Electricity Distribution Information Disclosure Determination 2012

The Auditor-General is the auditor of Alpine Energy Limited (the Company). The Auditor-General has appointed me, Nathan Wylie, using the staff and resources of PricewaterhouseCoopers, to provide an opinion, on his behalf, on:

- whether the information required to be disclosed in accordance with the Electricity Distribution Information Disclosure Determination 2012 ('the Information Disclosure Determination') for the disclosure year ended 31 March 2019, has been prepared, in all material respects, in accordance with the Information Disclosure Determination.

The disclosure information required to be reported by the Company, and audited by the Auditor-General, under the Information Disclosure Determination is in schedules 1 to 4, 5a to 5g, 6a and 6b, 7, the disclosure that shows the connection between the Company and the related parties with which it has had related party transactions in the disclosure year, the disclosures about related party transactions required under clause 2.3.12 of the Information Disclosure Determination, and the explanatory notes in boxes 1 to 11 in Schedule 14 ('the Disclosure Information').

- whether the Company's basis for valuation of related party transactions ('the Related Party Transaction Information') for the disclosure year ended 31 March 2019, has been prepared, in all material respects, in accordance 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').

Our opinion is split into three parts:

- Part A – Disclaimer of opinion on Schedule 5(b) and whether the Company's basis for valuation of related party transactions ('the Related Party Transaction Information') for the disclosure year ended 31 March 2019, has been prepared, in all material respects, in accordance 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'); and
- Part B – Qualified opinion regarding record keeping, the extraction of information from the Company's accounting and other records and the disclosure information required under the Information Disclosure Determination in schedules 1 to 4, 5a, 5c to 5g, 6a and 6b, 7, the disclosure that shows the connection between the Company and the related parties with which it has had related party transactions in the disclosure year, the disclosures about related party transactions required under clause 2.3.12 of the Information Disclosure Determination, and the explanatory notes in boxes 1 to 11 in Schedule 14.
- Part C – Sections applying to all parts of the opinion.



Part A - Disclaimer of opinion

Due to the significance of the matter described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate evidence to form an opinion on whether, the basis for valuation of related party transactions for the disclosure year ended 31 March 2019 complies, in all material respects, with the ID Determination and the IM Determination. We were therefore also not able to conclude on whether the Company has complied, in all material respects, with the Information Disclosure Determination in preparing Schedule 5b of the Disclosure Information. Accordingly we do not express an opinion.

Basis for disclaimer of opinion

We were engaged to conduct 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 Input Methodologies Determination in the preparation of the Disclosure Information for the year ended 31 March 2019.

The information provided by the Company to support the arm's length valuation for certain related party expenditures could not be verified against independent objective measures. Sufficient appropriate audit evidence could therefore not be obtained to conclude on whether the basis for valuation of these related party expenditures complies, in all material respects, with the ID Determination and IM Determination. We were therefore also not able to conclude on whether the Company has complied, in all material respects, with the Information Disclosure Determination in preparing Schedule 5b of the Disclosure Information. Accordingly we do not express an opinion.

Directors' responsibility for the related party transaction information

The Directors of the Company are responsible for:

- the preparation of Schedule 5b of the Disclosure Information in accordance with the Information Disclosure Determination, and
- the Related Party Transaction Information in accordance with the Information Disclosure Determination and the Input Methodologies Determination

and 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 responsibilities

Because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for a reasonable assurance opinion on the Company's compliance with clause 2.3.6 of the Information Disclosure Determination and clauses 2.2.11(1)(g) and 2.2.11(5) of the Input Methodologies or whether the Company has complied, in all material respects, with the Information Disclosure Determination in preparing Schedule 5b of the Disclosure Information.



Part B - Qualified opinion

In our opinion, except for the matters described in the *Basis for qualified opinion* section of our report:

- As far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Disclosure Information, apart from Schedule 5b, have been kept by the Company;
- 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; and
- With the exception of Schedule 5b, the Company has complied, in all material respects, with the Information Disclosure Determination in preparing the Disclosure Information.

Basis for qualified opinion

As explained under Part A of our report, the information provided by the Company to support the arm's length valuation for certain related party expenditures could not be verified against independent objective measures. Sufficient appropriate audit evidence could therefore not be obtained to conclude on whether the basis for valuation of these related party expenditures complies, in all material respects, with the Information Disclosure Determination and Input Methodologies Determination. Consequently, we were unable to determine whether any related party value adjustments to the capital expenditure and operational expenditure disclosed within Schedules 1, 2, 3, 4, 5b, 6a, 6b, and 14 would be necessary to ensure compliance of these schedules with the Information Disclosure Determination and Input Methodologies Determination.

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 compliance 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 data-bbox="193 456 667 488"><i>Regulatory Asset Base</i></p> <p data-bbox="193 506 667 831">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 Input Methodology 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.</p> <p data-bbox="193 853 667 1084">The RAB inputs, as set out in the Input Methodologies, are similar to those used in the measurement of property, plant and equipment in the financial statements, however, there are a number of different requirements and complexities which require careful consideration.</p> <p data-bbox="193 1106 667 1279">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.</p>	<p data-bbox="667 456 1501 555">We have obtained an understanding of the compliance requirements relevant to the RAB as set out in the Information Disclosure Determination (ID Determination) and the Input Methodologies (IMs).</p> <p data-bbox="667 573 1501 604">We have performed the following procedures:</p> <p data-bbox="667 622 1501 654"><i>Assets commissioned</i></p> <ul data-bbox="687 658 1501 972" style="list-style-type: none"><li data-bbox="687 658 1501 748">• 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 any reconciling items;<li data-bbox="687 770 1501 891">• 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;<li data-bbox="687 913 1501 972">• We tested a sample of assets commissioned during the disclosure period for appropriate asset category classification; <p data-bbox="667 994 1501 1025"><i>Depreciation</i></p> <ul data-bbox="687 1030 1501 1240" style="list-style-type: none"><li data-bbox="687 1030 1501 1088">• We compared the standard asset lives by asset category to those set out in the IMs;<li data-bbox="687 1111 1501 1169">• For assets with no standard asset lives we assessed the reasonableness of the lives used by reference to the accounting depreciation rates;<li data-bbox="687 1191 1501 1240">• We tested the mathematical accuracy of the depreciation calculation on a sample basis and that it is performed in line with IM clause 2.2.5; <p data-bbox="667 1263 1501 1294"><i>Revaluation</i></p> <ul data-bbox="687 1299 1501 1464" style="list-style-type: none"><li data-bbox="687 1299 1501 1388">• 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;<li data-bbox="687 1411 1501 1464">• We tested the mathematical accuracy of the revaluation calculation performed by management; <p data-bbox="667 1487 1501 1518"><i>Disposals</i></p> <ul data-bbox="687 1523 1501 1608" style="list-style-type: none"><li data-bbox="687 1523 1501 1608">• 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; <p data-bbox="667 1630 1501 1653">We have no matters to report from undertaking those procedures.</p>



Key assurance matter	How our procedures addressed the key assurance matter
<p><i>Cost and Asset Allocation</i></p> <p>The ID Determination relates to information concerning the supply of electricity distribution services. In addition to the regulated supply of electricity, Alpine Energy Limited also supplies customers with other unregulated services such as contracting and metering services.</p> <p>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:</p> <ul style="list-style-type: none"> • all of the costs directly attributable to the regulated goods or services; and • an allocated portion of the costs that are not directly attributable. <p>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.</p> <p>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.</p> <p>Given the judgement involved in the application of the cost and asset allocation methodologies we consider it a key assurance matter.</p>	<p>We obtained an understanding of the Company’s cost and asset allocation processes and the methodologies applied.</p> <p>Our procedures over cost and asset allocation included:</p> <ul style="list-style-type: none"> • Reconciling the regulated and unregulated financial information to the audited financial information; <p><i>Classification as directly/not directly attributable</i></p> <ul style="list-style-type: none"> • 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 work orders to ensure their classification as either directly attributable or not directly attributable are appropriate and in line with the ID determination; <p><i>Appropriateness of the allocators used for not directly attributable costs and assets</i></p> <ul style="list-style-type: none"> • Understanding why causal relationships could not be identified in allocating costs or assets and ensuring appropriate disclosure has been included outlining these in Schedule 14; • Considering the appropriateness of the cost and asset proxy allocators used in applying the ABAA to not directly attributable costs including supporting documentation and recalculating proxy allocators; and • Recalculating the split between not directly attributable costs and asset values allocated to electricity distribution services and non-electricity distribution services. <p>We have no matters to report from undertaking those procedures.</p>

Directors’ responsibility

The Directors of the Company are responsible for:

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

and 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

Our responsibility is to express an opinion that provides reasonable assurance on whether the Disclosure Information, other than Schedule 5b, has been prepared, in all material respects, in accordance with the Information Disclosure Determination

Part C – Sections applying to all parts of this report

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 (Revised) issued by the New Zealand Auditing and Assurance Standards Board;
- the independence requirements specified in the Information Disclosure Determination; and
- the Auditor-General’s quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

The Auditor-General, and his employees, and PricewaterhouseCoopers and its partners and employees may deal with the Company on normal terms within the ordinary course of trading activities of the Company. Other than any dealings on normal terms within the ordinary course of business, this engagement, regulatory compliance engagements and the annual audit of the Company’s financial statements, we have no relationship with or interests in the Company. . These assignments were compatible with the Auditor General’s independence requirements. Other than the provision of these assignments, we have no relationship or interests in the Company.

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 and whether the Related Party Transaction Information has been prepared, in all material respects, in accordance with the Information Disclosure Determination 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.

A handwritten signature in black ink, appearing to read 'Nathan Wylie', is written over a horizontal line.

Nathan Wylie
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand
3 September 2019