

14 November 2017

The Board of Directors  
Wellington Electricity Lines Limited  
PO Box 31-049  
Lower Hutt 5040  
WELLINGTON

Dear Directors

### **Confirmation of Engagement – Customised Price Path Proposal**

We are pleased to confirm our acceptance of the assurance engagement required in connection with the Customised Price Path Proposal ('the CPP Proposal').

The purpose of this letter is to confirm the terms of our engagement and the nature of, and limitations to the services that we will provide.

#### **1. Engagement Team**

Silvio Bruinsma will be the Lead Client Service Partner responsible for this engagement. It will be the responsibility of Silvio to ensure that Wellington Electricity Lines Limited ('WEL' or 'the Company') receive quality service. He will be assisted by David Morgan (Corporate Finance Partner) and Bradley Goodyear (Assurance and Advisory Manager). Silvio will, as he considers necessary, call on other individuals with specialised knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services.

#### **2. Background**

We understand that WEL have elected to apply for a Customised Price Path in order to fund the planned increase in capital expenditure required to improve WEL's readiness to respond in the event of a major earthquake. The Commerce Commission ('ComCom') has set out the requirements for a CPP Proposal under the Electricity Distribution Services Input Methodologies Amendments Determination 2012. WEL is seeking modifications to some of these requirements as yet to be agreed with the ComCom in order to facilitate the ease of a CPP application in WEL's circumstances, being 'Earthquake Readiness' expenditure, hereafter referred to as WEL Modified Determination Nov 2017.

The intended modifications relevant to our assurance engagement are set out in a letter to the ComCom attached in Appendix 2, and the subsequently agreed Scope of Streamline CPP model audit document, attached in Appendix 3.

#### **3. General Scope of Our Responsibilities**

Our responsibility is to conduct an assurance engagement in relation to the CPP Proposal as set out in the WEL Modified Determination Nov 2017. The scope of our engagement is limited to the matters set out in this letter. So that we are able to assist you effectively, please ensure that you are satisfied that the scope of our engagement and the services we will provide are sufficient for your needs. If you wish to discuss this with us further please let us know.

The WEL Modified Determination Nov 2017, as at the time of drafting this letter, has not been formally approved by the ComCom. Therefore to facilitate the workflow, we will commence our work based on the draft position. However, we reserve the right to amend the scope of our work (including extending procedures or restricting the scope of our assurance engagement) in respect of the final WEL Modified Determination Nov 2017.

We will conduct our engagement in accordance with 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 historical financial information and limited assurance over forecast financial information.

For the purposes of this engagement letter 'Next period' means the period commencing on the first day of the disclosure year during which the CPP application is submitted and terminating on the last day of the 3 disclosure years following the assessment period (being the three year CPP period ending 31 March 2021).

The procedures we will perform are described in more detail in section 4 below.

In a limited assurance engagement the evidence gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement.

We will comply with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* ('PES 1') issued by the New Zealand Auditing and Assurance Standards Board ('NZAuASB'), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In addition, PES 1 requires that we inform the Board of Directors whenever a breach of a provision in the Code is identified. The communication to the Board of Directors will take place as soon as possible for significant breaches. We are also required to communicate to you matters relating to conflicts of interest.

Our 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 NZAuASB, 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.

The Commerce Commission has also placed additional independence requirements on auditors of CPP proposals. We will comply with these additional independence requirements as specified in the WEL Modified Determination Nov 2017.

We expect that the form of our assurance report will be based on the requirements of ISAE (NZ) 3000 and SAE 3100.

#### **4. Scope of Work**

We understand that for the first two regulatory years of the CPP (being the years ending 31 March 2019 and 31 March 2020) the forecast information will comprise the approved maximum allowable revenue in the current DPP determination as applicable to WEL, plus the additional earthquake readiness expenditure relevant to each year.

For the third regulatory year of the CPP (being the year ending 31 March 2021) we understand that the forecast information will comprise a roll forward of the values from the current DPP period using projected business as usual capital and operating expenditure, plus the additional earthquake readiness expenditure.

Our scope of work reflects the differences in the source and nature of this information.

*Extraction of previously published information for the current Default Price Path (previously submitted and approved by ComCom)*

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 WEL Modified Determination Nov 2017. In making those risk assessments the auditor considers internal control relevant to WEL'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 WEL's internal control.

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

*Forecast financial information relating to the earthquake readiness expenditure for the next period*

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 will perform will be based on our professional judgement and will include making enquiries, primarily of the responsible party, and applying analytical and other review procedures in order to test whether the forecast information model was prepared, in all material respects, in accordance with the input methodologies set out in the WEL Modified Determination Nov 2017 and on the basis of reasonable and relevant assumptions.

Forecast financial information, including the basis and assumptions, is the sole responsibility of WEL. 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.

Our procedures will not include assessing the relevance and reasonableness of the assumptions contained in the previously published information for the current Default Price Path. We will consider these assumptions only insofar as they relate to the forecast earthquake readiness expenditure.

## **5. Our Report**

Our assurance report ('our report') and any other reports or advice which we provide to you as a result of our engagement may be used only by you for the purpose outlined above and otherwise, in the manner described in the Terms.

Our report will be 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. Our 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 our report.

## 6. General Scope of Your Responsibilities as the Board of Directors

The Board of Directors is responsible for the preparation of the CPP Proposal in accordance with the WEL Modified Determination Nov 2017. 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 WEL Modified Determination Nov 2017 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 WEL Modified Determination Nov 2017 and properly reflects WEL's operations and events which occurred during the current period, and that the assumptions made in respect of the forecast information for the next period in the CPP Proposal are reasonable.

The Board of Director's responsibilities also include:

- providing us with all of the financial and non-financial records/related information required for us to complete this engagement even if such information has been given to us previously in the course of a different engagement;
- providing us with unrestricted access to persons within the Company from whom we determine it necessary to obtain information;
- remaining solely responsible for all aspects of your business and taking all decisions relating to the compliance with the Modified Determination;
- establishing and maintaining an effective system of internal control over its operations and financial reporting, including, without limitation, systems designed to ensure compliance with applicable laws and regulations;
- ensuring the accuracy and completeness of the financial and non-financial information subject to this engagement.

As part of our engagement we will request from the Board of Directors written confirmation concerning representations made to us in connection with the engagement.

You will identify and comply with, and assist Deloitte Limited to maintain its independence and comply with, all applicable laws and regulations and all professional standards that relate to the services.

Our timely delivery of the assurance report is dependent upon you fulfilling your responsibilities.

We look forward to the full co-operation of your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our assurance engagement.

## 7. 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 relation to the historical financial information are not performed continuously throughout the current period and the procedures performed in respect of WEL's compliance with the Modified Determination are undertaken on a test basis, our assurance engagement cannot be relied on to detect all instances where WEL may not have complied with the Modified Determination.

In addition, the review procedures performed on the forecast financial information relating to 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.

## 8. Confidentiality

Where Deloitte Limited or a Member Firm (as defined in the Terms) is also your auditor, nothing in this Contract will prevent Deloitte Limited or the Member Firm from using information provided by you to Deloitte Limited or a Member Firm to enable Deloitte Limited or the Member Firm to comply with its professional obligations as auditors.

## 9. Responsibility Relating to Distribution of our Report and Controls over Electronic Distribution Methods

If the CPP Proposal is published or reproduced, in printed form or electronically (for example on an internet website other than the ComCom's or WEL's website), our report together with the related CPP Proposal, or otherwise make reference to our firm in a document that contains other information, the Board of Directors agrees to:

- provide us with a draft of such document to read; and
- obtain our approval for inclusion of our report

before the document is finalised and distributed. Where our report is reproduced in any medium, the complete CPP Proposal must also be presented.

In the event the related CPP Proposal and report are published on a website, the security and controls over information on the website should be addressed by the Company to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of the related CPP Proposal on the Company's website is beyond the scope of this engagement.

Responsibility for the electronic presentation of the related CPP Proposal on the Company's website is that of the Board of Directors.

## 10. Fees

This is the first time that WEL have prepared a CPP Proposal. The information required to be included as part of the CPP Proposal is expected to be complex due to the various concepts that need to be considered as part of the model assessment under the WEL Modified Determination Nov 2017.

Therefore we propose to invoice the costs of completing the engagement based on the actual hours incurred and at an agreed upon rate.

We may call on other individuals with specialised knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services. These other individuals will be included in our billing at an agreed upon rate.

Based on our initial planning procedures we estimate that our fees for the above services will be between \$50,000 and \$75,000.

Our fee estimate is based on the following assumptions:

- You provide us with accurate and complete model documentation that sets out the purpose of each of the key calculations contained within the model, which is required to enable us to perform our procedures. The absence of model documentation may affect the effectiveness of our work;
- Undertaking our procedures on a single version the Model and one updated versions, based on changes made to the Model arising from the resolution of issues raised during the course of this engagement. Any additional work in relation to testing subsequent versions of the Model shall be subject to an extension of our scope of work and variation of these terms; and
- You comply with your responsibilities as set out above.

Should any of these assumptions not hold ie. additional versions of the model are provided, then the fee may exceed \$75,000. We therefore reserve the right to discuss the final fee with you based on actual costs incurred.

These estimates are exclusive of GST and out-of-pocket disbursements and relates to the issuance of our assurance report.

## 11. Master Terms of Business

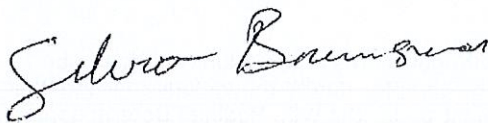
All services are provided subject to the terms and limitations set out in this letter (including any appendices) and the attached Master Terms of Business. In case of any conflict between this letter and the Terms, this engagement letter shall prevail. Please read the Master Terms of Business carefully, as they form an important part of our contract with you.

Deloitte Limited is the Deloitte entity entering into this engagement with you and is the 'Deloitte Service Provider' for the purposes of the Master Terms of Business.

## 12. Agreement

If you have any questions about this letter or the attached Terms, please contact me. Please confirm your agreement to the terms and limitations of this engagement letter and the accompanying Terms by signing below and returning a copy to us.

Yours faithfully

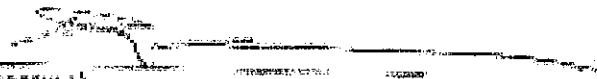


Silvio Bruinsma  
**Partner**  
**for Deloitte Limited**

**Enclosure:** Appendix 1: Master Terms of Business  
Appendix 2: Request for modifications and exemptions to input methodologies  
Appendix 3: Scope of Streamline CPP Model Audit

## Client Acceptance

Wellington Electricity Lines Limited confirms and accepts the engagement of Deloitte Limited to provide the services on the terms and conditions set out in this engagement letter dated 14 November 2017 and the Master Terms of Business.



(Signature)

R. C. Pearson  
(Name)

CHAIRMAN  
(Position)

