Independent Review & Assessment of the Infrastructure Access Fee proposed by Armourguard Logistics Limited

NZIER report presented to Armourguard Logistics Limited

31 March 2025

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Key points

Opening problem definition – cash in transit business cannot recover their costs

Cash in transit (CiT) businesses in New Zealand cannot cover their costs from the fees they charge for the provision of those services. The revenue shortfall has been persistent in New Zealand and is driven by a combination of declining use of cash as a means of payment in favour of digital payments, CiT customer resistance to price increases, and rising CiT business costs. The total EBITDA of the two CIT business has been negative and declining over the past three years as costs have risen faster than revenue. The shortfall is expected to rise in the near-term as CiT costs are expected to continue to rise faster than revenue.

The Reserve Bank of New Zealand (RBNZ) made the following comments in its submission to the Commerce Commission on the ALL merger proposal:

> *Previous modelling and analysis in 2020 highlights that the CiT sector is facing significant financial viability challenges as a result of the decline of the volume of cash being used.*
>
> *It is our understanding that the CITs tend to be price takers (from clients) not price makers (to the market). The distribution of market share between the two CITs tends to be skewed and alternate between the two depending on procurement cycles. The current situation has been described as "a race to the bottom" and "winner take all".* [1]

On 8 October 2024, the Commerce Commission approved the merger of the two largest CiT businesses - Armourguard Security CIT (Armourguard) and ACM New Zealand Limited (ACM) which will create a near monopoly provision of CiT services in New Zealand. The Commerce Commission accepted the argument that at least one of the CiT suppliers would cease to operate or exit the marketplace in the near future without the merger. The merger was completed on 31 March 2025.

The estimated synergies from the merger of the two largest CiT businesses are forecast to be materially offset by integration and restructuring costs, investment in business continuity facilities, replenishment of essential CiT infrastructure, as well as the payment of a living wage to retained staff. These integration and restructuring costs will leave the newly formed entity – Armourguard Logistics Limited (ALL) with a lower (negative) combined EBITDA than the existing stand-alone entities. Importantly, absent a change to ALL's current CiT fee structure, it shall be unable to generate sufficient cash flow to fund its operations, let alone the ongoing essential maintenance and required capital investment in critical infrastructure to ensure the delivery of robust, resilient and sustainable cash management and logistics services to the New Zealand cash economy.

[1] RBNZ (2024), 'Submission on Statement of Preliminary Issues: Evergreen/ACM, 27 May 2024, UNCLASSIFIED' page 4.

Proposed solution – infrastructure access fee (IAF)

To place ALL on a financially sustainable footing, ALL proposes charging the 'Tier 1' banks[2] an infrastructure access fee (IAF) as the Tier 1 banks receive additional benefits[3] (back-up for and increased customer confidence in their digital payment services) which do not accrue to non-bank users of CiT services.

NZIER has been asked to comment on whether the introduction and allocation of an IAF solely to Tier 1 bank customers is reasonable, customary and consistent with a comparator group of utility businesses and/or other monopolies operating in New Zealand.

Assessment of EBITDA margin calculation

We believe that an EBITDA margin calculation based on the average of a relevant group of comparators is a reasonable starting point for setting the IAF. The comparator group should include businesses that are similar to ALL in that they:

- are monopolies, but their pricing is negotiated with customers rather than set by regulation;
- are not able to exercise market power to earn super profits because of structural constraints on the market in which they operate.

We recommend that the comparator group should be 'consumer owned' electricity distribution businesses (EDB). These EDB are monopoly suppliers, but are exempt from Commerce Commission price quality path regulation[4] as the 'consumer ownership' is expected to ensure the EDB acts in the best interests of its consumers.

The other monopolies that we have considered, but ultimately excluded from the comparator group include:

- Auckland, Christchurch and Wellington Airports which are substantially larger than ALL and seem to have more market power than ALL;
- Businesses that are subject to Commerce Commission price quality path regulation which include EDB not owned by consumers, Transpower (electricity transmission grid), First Gas (gas transmission network) and Chorus (broadband network). The regulation of maximum allowable revenue and investment by the Commerce Commission for businesses in this group is not consistent with the following:
  - Lack of capacity of ALL to exercise market power as implied in the Commission's clearance of the merger without requirement for regulation;
  - Negotiated pricing arrangements proposed by ALL for the IAF which reflects benefits to the banks from the existence of access to cash.

The comparator group of consumer owned EDB reported a simple average EBITDA margin of 36.3 percent and revenue weighted average EBITDA margin of 39.1 percent in 2024.

[2] The 'Tier1' banks as defined in the Armourguard Logistics proposal include the four large Tier 1 banks (ANZ, ASB, BNZ, Westpac) and six small / medium Tier 1 banks (Kiwi Bank, TSB, Heartland Bank, Southland Building Society, the Co-Operative Bank, and Bank of Baroda).

[3] This is a short summary of benefits identified by RBNZ. More detail is provided in section 5.1 of this report.

[4] The Commerce Commission price quality path regulation sets maximum revenue levels for each EDB based on a detailed building block methodology and sets maximum levels on the growth in the RAB.

Assessment of IAF rationale

We believe that the rationale for the introduction of an IAF and its proposed allocation across Tier 1 banks is reasonable given the unique market dynamics, pricing and circumstances surrounding the CiT market in New Zealand. The key arguments in favour include:

- In order for ALL to be positioned to deliver robust, resilient and sustainable cash management and logistics services throughout the country, a new revenue stream must be introduced which is not tied to the delivery of CiT services (i.e. linked to either the volume or value of cash used as a means of payment) and is therefore not exposed to any reduction in CiT revenue resulting from further declines in cash usage and/or consumers switching from cash to digital payments;
- The main benefits from access to cash as means of payment are the resilience and confidence it engenders in the digital payment system, a value anchor for digital payments and social inclusion. This benefit is derived from the existence of a system to accept cash payments and the perception that this service will be available when required. Accordingly, the IAF should be allocated to the main providers of digital payment products using a mechanism that is not directly related to the volumes of cash used as a means of payment;
- It is very difficult to value the confidence in the digital payment systems engendered by the contingent access to cash from first principles. However, it is reasonable and simpler to value this benefit as the excess cost of providing this service. The Proposed IAF is an estimate of what ALL requires to cover its cost of operations, maintenance of and further investment in essential CiT infrastructure, as well as an expectation to earn a return of and on its invested capital that is consistent with the market based returns earned by monopoly utilities.

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1 Scope

1.1 Key questions

Armourguard Logistics Limited (ALL) have asked NZIER for an independent review and assessment of its proposed Infrastructure Access Fee (IAF) that considers whether the IAF:

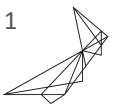
- Is consistent with pricing methodologies used by utility businesses and/or other monopolies in New Zealand and appropriate given the merits and risks of alternative pricing methodologies for utilities and/or other monopoly businesses in New Zealand?
- Is based upon reasonable and customary assumptions around operating and capital expenditure required to provide a robust and resilient national cash distribution service including projected integration costs and savings?
- Is sized to generate a margin that is consistent with utility businesses and/or other monopolies in New Zealand?
- Is allocated and charged to customers in a manner consistent with utility businesses and/or other monopolies in New Zealand while recognising the unique market dynamics of the cash in transit market, with specific reference to those customers identified as Tier 1 customers?

1.2 Problem definition

Cash in transit (CiT) businesses in New Zealand have been unable to charge fees that adequately cover their operating costs, let alone provide additional margin to support the renewal of investment required for a robust, resilient, and sustainable business. This weakness is evidenced by the poor financial results for both Armourguard Security CiT (Armourguard) and ACM NZ Holdings Limited (ACM) operations shown in Table 4 and Table 5. The main expenses for both businesses are the labour expense and overhead required to operate and maintain a national transportation and cash processing footprint. The key elements of the financial viability problem include:

- A persistent and large revenue and profitability shortfall exists between the fees the CiT service providers have historically been able to charge their customers versus their costs. It is likely that this financial deficit shall grow in the future as both consumers and retailers continue to reduce their use and/or acceptance of cash payments. Unit cost of cash rise with declining usage. RBNZ comment in its submission support this assessment[5];
- The supply of CiT services has historically been concentrated with two large, but financially distressed service providers. With approval of the merger by the Commerce Commission, these two CiT providers intend to merge into one dominant supplier. Despite their dominant market position, the Commerce Commission found no evidence that either CiT business had the ability to exercise market power to increase pricing, set contract terms, or earn competitive returns, let alone monopoly profits. Approximately

[5] RBNZ (2024), 'Submission on Statement of Preliminary Issues: Evergreen/ACM, 27 May 2024, UNCLASSIFIED' page 4. *'When the volume of cash demanded by the public falls, the per-unit costs of providing that cash increase and the incentives to provide cash to the public are reduced. This is illustrated by the diagram above. As the use of cash continues to decline, the current cash system will become increasingly commercially unsustainable under current structures.'*



half of ALL's revenue shall be earned from non-bank customers. All advises that non-bank customers are highly sensitive to the transaction costs associated with accepting cash as a form of payment. These non-bank customers have a strong incentive to discourage their customers using cash as a means of payment in favour of digital payment methods;

- Central bank concern that access to cash is maintained to meet community demand and because of its role in the payments system as a contingency means of payment (for example natural disasters) and as a 'value anchor'[6] - maintaining confidence in bank deposits and the electronic payment products that they enable.

1.3 Rationalisation of CiT providers leaves revenue and profitability shortfall

The persistent revenue and profitability shortfall is a direct consequence of structural shifts in payment preferences towards digital transactions, compounded by customer resistance to price increases for CiT services and escalating operational and capital expenditures.

On 8 October 2024, the Commerce Commission approved the merger of the two largest CiT businesses - Armourguard and ACM, which will create a near monopoly provision of CiT services in New Zealand. The Commerce Commission accepted the argument that at least one of the CiT suppliers would cease to operate or exit the marketplace in the near future without the merger. The merger was completed on 31 March 2025.

The estimated synergies from the merger of the two largest CiT businesses are forecast to be exceeded by integration and restructuring costs, investment in business continuity facilities, replenishment of essential CiT infrastructure, as well as the payment of a living wage to retained staff. These integration and restructuring costs will leave the newly formed entity – Armourguard Logistics Limited (ALL) with a lower (negative) combined EBITDA than the existing stand-alone entities. Importantly, absent a change to ALL's current CiT fee structure, it shall be unable to generate sufficient cash flow to fund its operations, let alone the essential ongoing maintenance and required capital investment in critical infrastructure needed to ensure the delivery of robust, resilient and sustainable cash management and logistics services to the New Zealand cash economy.

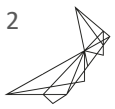
1.4 Proposed IAF

To ensure the continued stability of New Zealand's cash infrastructure—ALL proposes an Infrastructure Access Fee (IAF) of approximately $30 million, proportionally allocated to its Tier 1 banks as the primary beneficiaries of a resilient cash logistics network.

NZIER has been asked to comment on whether the introduction and allocation of an IAF solely to Tier 1 bank customers is reasonable and consistent with utility and/or monopoly based service pricing.

ALL is proposing to allocate and charge the IAF solely to its 'Tier 1' customers (banks which currently account for 50 percent of consolidated ALL revenue). The Proposed IAF, once implemented across all of ALL's Tier 1 customer contracts, is expected to support pro forma 2024 ALL EBITDA, inclusive of the Proposed IAF, of approximately $21.0 million, representing a pro forma 2024 ALL EBITDA margin of approximately 24 percent. In 2024, the comparator

[6] RBNZ Jul 2023 ' What is money' available at www.rbnz.govt.nz/money-and-cash/future-of-money/what-is-money#:~:text=Central%20bank%20money%20builds%20trust,at%20the%20maximum%20sustainable%20level.



group of consumer owned EDB reported a simple and revenue weighted average EBITDA margin of 36 percent and 39 percent, respectively. The comparator group EBITDA margins are considerably higher than ALL's pro forma 2024 EBITDA margin, inclusive of the Proposed IAF. The lower margin Proposed IAF suggests ALL has sized the Proposed IAF to satisfy its anticipated minimum needs, while recognising customer sensitivity to rising prices. After allowing for estimated interest costs, income taxes, and essential maintenance and replenishment capital expenditures, ALL expects to generate pro forma 2024 after-tax operating cash flow of approximately $5.9 million, representing an estimated after-tax return on invested capital of approximately 5.9 percent, which is in line with the relevant comparator group 2024 return on investment of 5.75 percent.

ALL intends to monitor its CIT service pricing and resultant EBITDA margins post completion of the merger with ACM in order to ensure its ability to deliver robust, resilient and sustainable cash management and logistics services to the New Zealand cash economy.

The following four sections address each of the four scope elements of the Proposed IAF.

2 Consistency with utility pricing models

2.1 Introduction

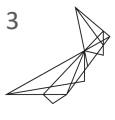
This section comments on the scope element of the Proposed IAF:

- *Is the IAF consistent with pricing methodologies used by utility businesses and/or other monopolies in New Zealand and appropriate given the merits and risks of alternative pricing methodologies for regulated and/or monopoly businesses?*

The ALL Proposed IAF white paper includes references to electricity generator-retailers, an airport in New Zealand, telecommunication suppliers, and owners of broadband and electricity transmission and distribution from both New Zealand and other Asia Pacific countries. The electricity gentailers and telecommunications suppliers are not monopoly infrastructure owners. The owners of broadband and electricity transmission, and some electricity distribution businesses are monopoly infrastructure owners . However, despite being monopoly infrastructure owners, they are subject to price quality path regulation (which means the Commerce Commission sets their maximum allowable revenue and upper limits on the amount they can invest in their assets) under Part 4 of the Commerce Act 1986 to achieve the objectives described below.

The purpose of the Part 4 of the Commerce Act is to:

> *The purpose of this Part is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—*
>
> *(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and*
>
> *(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*



(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

(d) are limited in their ability to extract excessive profits. [7]

In its 8 October 2024 unconditional approval of Armourguard's purchase of ACM, the Commerce Commission did not recommend price quality path regulation of Armourguard.

> *The Explanatory Note to the Commerce Amendment Bill as introduced stated that "the reason for this relatively light-handed regime is because consumers, as owners, are able to ensure that the business acts in their interests", and with regard to 100 percent consumer trust-owned businesses, "in principle the case for economic regulation is relatively weak where the customers are the owners of the firm".*[8]

Accordingly, we suggest that the most relevant and appropriate comparator group should be 'consumer owned' electricity distribution businesses (EDB). These EDB are monopoly suppliers, but importantly, they are exempt from Commerce Commission price quality path regulation[9] as the 'consumer ownership' is expected to ensure the EDB acts in the best interests of its consumers. Like consumer-owned EDB, the structure of the market in which ALL operates constrains it from earning 'excessive profits.' Therefore, we recommend that the utility comparators narrowly focus on monopoly businesses operating in New Zealand with prices that are not regulated by the Commerce Commission – namely, Consumer Owned EDB.

2.2 What elements of utility pricing are relevant to CiT cost recovery?

The points of similarity between CiT businesses and utilities include the following:

- The near 100 percent market share of the dominant CiT businesses in their respective New Zealand markets with utilities that have a geographical monopoly such as water, electricity and gas network operators;
- The need to recover both fixed asset costs and variable costs through a single tariff and the need to allocate costs differently across different customers based on their contribution to fixed asset costs and their use of services that drive variable costs;
- The need to have a minimum national network capacity to deliver the service over the entire service area covered by the business with sufficient capacity to meet peaks in demand which are likely to be substantially above average demand levels. While ALL does not have pipes and/or wires, it does need a national transport, vaulting and processing hub network which allows for the timely transport, processing, vaulting and delivery of cash to/from customer sites within acceptable time frames.

There are also some points of difference, but these do not invalidate the contribution of consumer owned EDB as an indicator of the appropriate EBITDA margin and return on investment for monopolies. The key points of difference are:

- All fee-paying consumers of electricity, gas and water networks are essentially using the network for the same service – transporting a commodity. By contrast, the existence of

[7] See 'Commerce Act 1986, s52A (1) available at https://www.legislation.govt.nz/act/public/1986/0005/latest/whole.html#DLM88433

[8] Commerce Commission (2009) 'Treatment of Consumer-owned Electricity Distribution Businesses under the Initial Default Price-Quality Path' page 2 . Downloaded from https://comcom.govt.nz/__data/assets/pdf_file/0018/62604/comcom-initialdefaultpricequalitypathtreatmentofconsumerownededbupdated-oct2009.pdf

[9] The Commerce Commission price quality path regulation.

a national CiT network provides additional benefits to banks that are not enjoyed by non-banks and not reflected in the direct cost of CiT services. For banks these benefits are increased customer confidence in the electronic payment services banks offer and bank deposits from the availability of cash as a backup if digital payment services fail and as a value anchor[10] to improve inclusion in the payment system. This point of difference relates to how the IAF is allocated, rather than its existence and/or sizing as is discussed in section 5;

- Electricity, gas and water networks have long-lived capital assets (20 to 40 years) with challenging trade-offs between economies of scale during construction and minimising unused capacity. By contrast, the main CiT assets – fortified premises fit-out, cash handling equipment and armoured vehicles have lives of 6 to 12 years. This issue is more about rationalising national CiT capacity and the principles for sizing the IAF, rather than the actual need for an IAF.

The following tables provide information on the EBITDA margin and return on investment by consumer owned EDB over the past three years. For comparison purposes, the same information for EDB subject to price quality regulation is included in Appendix B.

[10] These benefits are described by RBNZ. See section 5.1.1 for more detailed comment.

Table 1 Community owned EDB revenue, operating expense, EBITDA and EBIT

Revenue in $million for the year ended 31 March

EDB	2022				2023				2024			
	Revenue	Operating Expense	EBITDA	EBIT	Revenue	Operating Expense	EBITDA	EBIT	Revenue	Operating Expense	EBITDA	EBIT
Buller Electricity	7.9	4.6	3.4	1.7	7.9	4.6	3.3	1.5	8.6	7.0	1.6	-0.3
Centralines	12.5	8.1	4.5	2.4	14.4	9.1	5.3	3.0	15.4	8.0	7.4	4.7
Counties Energy	56.4	31.5	24.9	12.8	61.4	37.3	24.1	10.7	69.0	38.7	30.3	14.4
Electra	40.6	23.7	16.9	7.8	44.0	27.4	16.6	6.3	49.0	28.8	20.2	9.3
MainPower NZ	51.1	34.1	17.0	-0.3	55.2	33.1	22.0	3.4	59.6	35.7	23.9	4.6
Marlborough Lines	40.8	25.2	15.6	5.2	39.2	27.0	12.1	0.7	43.2	28.4	14.8	3.2
Network Waitaki	19.7	13.3	6.4	2.0	22.0	15.6	6.3	1.7	24.6	18.3	6.2	1.2
Northpower	66.0	46.4	19.6	8.2	66.5	55.3	11.1	-1.1	73.9	54.9	19.0	6.0
Scanpower	9.0	6.1	2.9	0.9	9.9	6.1	3.8	1.6	10.3	6.9	3.4	0.9
The Power Company	57.8	29.9	27.9	11.9	60.3	31.3	29.0	11.4	64.4	31.6	32.8	13.9
Waipa Networks	29.9	19.5	10.4	5.8	30.6	22.4	8.2	2.0	34.2	22.6	11.5	4.5
WEL Networks	103.3	59.8	43.5	21.6	101.8	65.1	36.7	12.1	112.8	61.1	51.7	24.3
Westpower	21.5	14.4	7.1	1.8	22.2	15.3	6.8	1.0	25.2	17.6	7.6	1.3
Median	**40.6**	**23.7**	**15.6**	**5.2**	**39.2**	**27.0**	**11.1**	**2.0**	**43.2**	**28.4**	**14.8**	**4.6**
Simple Average	**39.7**	**24.4**	**15.4**	**6.3**	**41.2**	**26.9**	**14.3**	**4.2**	**45.4**	**27.7**	**17.7**	**6.8**

Source: NZIER

Table 2 Community owned EDB revenue, EBITDA and EBIT margins

Revenue in $million for the year ended 31 March

EDB	2022			2023			2024		
	Revenue	EBITDA Margin	EBIT Margin	Revenue	EBITDA Margin	EBIT Margin	Revenue	EBITDA Margin	EBIT Margin
Buller Electricity	7.9	42%	21%	7.9	42%	19%	8.6	19%	-4%
Centralines	12.5	36%	19%	14.4	37%	21%	15.4	48%	31%
Counties Energy	56.4	44%	23%	61.4	39%	17%	69.0	44%	21%
Electra	40.6	42%	19%	44.0	38%	14%	49.0	41%	19%
MainPower NZ	51.1	33%	-1%	55.2	40%	6%	59.6	40%	8%
Marlborough Lines	40.8	38%	13%	39.2	31%	2%	43.2	34%	7%
Network Waitaki	19.7	33%	10%	22.0	29%	8%	24.6	25%	5%
Northpower	66.0	30%	12%	66.5	17%	-2%	73.9	26%	8%
Scanpower	9.0	32%	10%	9.9	39%	16%	10.3	33%	9%
The Power Company	57.8	48%	21%	60.3	48%	19%	64.4	51%	22%
Waipa Networks	29.9	35%	19%	30.6	27%	7%	34.2	34%	13%
WEL Networks	103.3	42%	21%	101.8	36%	12%	112.8	46%	22%
Westpower	21.5	33%	9%	22.2	31%	5%	25.2	30%	5%
Median	**40.6**	**36%**	**19%**	**39.2**	**37%**	**12%**	**43.2**	**34%**	**9%**
Simple Average	**39.7**	**38%**	**15%**	**41.2**	**35%**	**11%**	**45.4**	**36%**	**13%**
Weighted Average		**39%**	**16%**		**35%**	**11%**		**39%**	**17%**

Source: NZIER

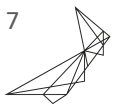


Table 3 Community owned EDB regulatory investment value (RIV), vanilla WACC, and post-tax WACC

RIV in $million for the year ended 31 March

EDB	2022			2023			2024		
	Closing RIV	Vanilla WACC	Post Tax WACC	Closing RIV	Vanilla WACC	Post Tax WACC	Closing RIV	Vanilla WACC	Post Tax WACC
Buller Electricity	31.8	10.71%	10.41%	33.6	10.16%	9.46%	35.0	3.11%	2.41%
Centralines	62.3	9.84%	9.54%	83.3	9.17%	8.65%	91.6	8.23%	7.53%
Counties Energy	352.9	9.92%	9.62%	402.9	8.98%	8.46%	479.0	6.61%	5.91%
Electra	215.9	9.62%	9.32%	230.1	8.77%	8.26%	244.4	7.04%	6.34%
MainPower NZ	275.0	6.63%	6.33%	298.8	7.47%	6.95%	320.8	5.21%	4.50%
Marlborough Lines	244.1	8.26%	7.96%	259.2	6.66%	6.14%	273.3	4.88%	4.18%
Network Waitaki	105.6	8.38%	8.08%	115.2	8.03%	7.52%	128.1	4.91%	4.21%
Northpower	313.8	8.76%	8.46%	337.6	6.43%	5.91%	368.4	5.32%	4.62%
Scanpower	47.8	8.33%	8.03%	51.5	9.21%	8.69%	54.4	5.55%	4.85%
The Power Company	432.1	8.96%	8.66%	463.9	8.66%	8.15%	487.2	6.39%	5.69%
Waipa Networks	138.5	9.22%	8.92%	154.8	6.90%	6.38%	161.1	5.54%	4.84%
WEL Networks	602.4	9.91%	9.61%	661.6	8.35%	7.84%	701.1	6.99%	6.29%
Westpower	114.6	8.33%	8.03%	120.0	7.28%	6.77%	123.5	4.92%	4.22%
Median	215.9	8.96%	8.66%	230.1	8.35%	7.84%	244.4	5.54%	4.84%
Simple Average	225.9	8.99%	8.69%	247.1	8.16%	7.63%	266.8	5.75%	5.04%

Source: NZIER

3 Operation cost and capital expenditure assumptions

This section comments on the scope element of the Proposed IAF:

- *Is the IAF based upon reasonable and customary assumptions around operating and capital expenditure required to provide a robust and resilient national cash distribution service including projected integration costs and savings?*

We are not experts on the cost range or best practice for the delivery of CiT services. The following observations are based on comparison of Armourguard and ACM historical financial results as well as the pro forma financial forecast for the first full operating year of ALL.

For the twelve months ended 31 December 2024, Armourguard CiT generated revenues, gross margin, EBITDA, and EBIT of $36.1 million, $10.4 million, -$2.6 million, and -$4.1 million, respectively (see Table 4). ACM is the main competitor of Armourguard CiT. Over this same twelve month period, ACM generated revenues, gross margin, EBITDA, and EBIT of $21.0 million, $3.5 million, -$3.9 million, and -$4.2 million, respectively (see Table 5). ALL advises that ACM has been losing money for the past five years and has a larger EBITDA deficit than Armourguard CiT given its smaller customer and revenue base. In addition, ACM CiT assets have been fully written-off and need to be replaced, while Armourguard assets are approaching the end of their useful lives. In order to survive, both companies have deferred maintenance and capital investment in their businesses. ALL will need to invest heavily in the replenishment of its armoured fleet, note and coin processing equipment, cash management software and systems as well as implementing a living wage to retain its experienced staff.

The pro forma projected EBITDA for the first twelve months of ALL operations is based upon the combined 2024 EBITDA of -$9.0 million, as adjusted for:

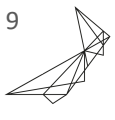
- Estimated synergies[11] from the merger of $5 million;
- Additional transaction integration and restructuring expenses of not less than $7.5 million are expected to be incurred to transition ALL staff to a living wage, establish new business continuity sites, incur lease terminations, update the ALL armoured transport fleet, note / coin counting equipment, software and system upgrades.[12]

The operation and capital cost assumptions for ALL are based on the actual operations of Armourguard CiT and ACM for the twelve months ended 31 December 2024. The projections of ALL do not include across the board cost increases other than the cost of business continuity facilities and the proposed increase in the living wage for ALL staff. The projected capital requirements appear to be in line with the replacement of existing assets that have been largely depreciated (Armourguard CiT) or completely written-off (ACM).

Post merger, ALL will employ approximately 522 CiT staff and 18 contractors.

[11] ALL has estimated the potential merger synergies of $5 million. We do not have sufficient information to comment on whether this estimate is reasonable. Armourguard and ACM have similar total overhead expenditures which ALL expects shall be reduced within 12 – 24 months following the merger, subject to the Employment Relations Act 2000, other relevant laws and limitations, as well as contractual lease commitments.

[12] We do not have sufficient information to comment on whether these estimates are reasonable.



ALL combined operations shall consist of:[13]

- Cash processing floors in Auckland, Hamilton, Palmerston North, Wellington, Nelson, Christchurch, Queenstown and Dunedin;
- Transport hubs in Whangarei, New Plymouth, Napier and Invercargill;
- Business continuity sites in Auckland and Christchurch;
- A fleet of 110 vehicles.

4 IAF level

This section comments on the scope element of the Proposed IAF:

- *Is it sized to generate a margin that is consistent with utility businesses and/or other monopolies in New Zealand?*

The revenue shortfall facing ALL cannot be closed and EBITDA raised to a sustainable level merely by improving the efficiency of the merged CiT operations, or by charging non-bank CIT customers more for their services.

The forecast synergies for the merger of the two CiT businesses are expected to be largely offset by the integration and restructuring expenses associated with the merger, including transitioning ALL staff to a living wage, establishing new business continuity sites, lease terminations, updating the ALL transport fleet, note / coin counting equipment, software and system upgrades. ALL is quite confident given the elasticity of non-bank customer demand for its CiT services, any prospective increase in its CIT service pricing would likely be met with reductions in the use of cash and associated CiT services. This is supported by the RBNZ comment:

> *It is our understanding that the CITs tend to be price takers (from clients) not price makers (to the market).*[14]

The coverage and scale of the proposed ALL operation seems to reflect rationalisation of the ACM and Armourguard sites and labour into a national service. The potential margin for error in rationalisation savings (measured in millions) is modest and an order of magnitude lower than the required needs of the Proposed IAF.

5 IAF allocation

This section comments on the scope element of the Proposed IAF:

- *Is the IAF allocated and charged to customers in a manner consistent with utility businesses and/or other monopolies in New Zealand while recognising the unique market dynamics of the cash in transit market, with specific reference to those customers identified as Tier 1 customers?*

[13] 'Armourguard Logistics Update 18 December 2024.'

[14] RBNZ (2024), 'Submission on Statement of Preliminary Issues: Evergreen/ACM, 27 May 2024, UNCLASSIFIED' page 4.

The charging of the IAF to the Tier 1 banks and the allocation of the IAF across the banks using an allocator that is related to their share of the banking system and not directly linked to the use of cash as a means of payment are consistent with the approach used by utility businesses given the rationale for the IAF.

5.1 IAF rationale –value of access to cash to Tier 1 bank digital payments

The role of cash as a value anchor for private money (bank deposits) and a back-up for retail digital payments gives the existence of a CiT network a value in addition to managing cash holdings and segments the market for CiT services into two groups:

- Banks - issuers of private money who have an interest in maintaining access to cash as well as being able to access CiT services to meet customer demand to withdraw or deposit cash;
- Non-bank businesses that receive cash as payment and seek to deposit it with a bank. For this segment of the market, CIT services are important, but it is not essential, as cash may be one of several payment options.

Accordingly, the two CiT customer segments have different drivers for their willingness to pay for CiT services and different alternatives to CiT services. For non-bank CiT customers, cash is only one of several means of payment and is increasingly less popular. The RBNZ 2023 cash use survey[15] reported that the proportion of people using cash to:

- Pay everyday bills was 17.7% in 2023 compared with 21.6% in 2019 and 22.6% in 2021;
- Purchase everyday things fell to 57.2% in 2023 from 95.8% in 2019.

For banks, while the system demand for CiT services is declining, the value of digital payments is growing, which increases the importance to banks of ensuring access to cash to maintain confidence in digital payments.

5.1.1 Cash as a value anchor

RBNZ argues cash is a value anchor[16] for bank deposits -private money issued by banks.

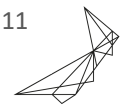
> *"Knowing that the money held in our bank accounts can be withdrawn in central bank money backed by the New Zealand government, currently only available through physical cash, is an unspoken promise which helps promote trust in banks and the financial system," Hawkesby[17] said.*[18]
>
> *Value Anchor*
>
> *Cash is central bank money and in that capacity it underpins trust and confidence in private money and therefore enables people to transact with confidence. It acts as a value anchor for private money, the financial system, and the economy more generally. Central bank money acts as the value anchor for New Zealand because people understand and trust its value and can swap their private money into it at a ratio of 1:1 whenever they want ('convertibility'). The fact that privately issued*

15 RBNZ (2024) 'Summary Report, 2023 Cash Use Survey.

16 RBNZ 2023 'What is money?', 11 July 2023.

17 Christian Hawkesby, Deputy Governor/General Manager Financial Stability, RBNZ.

18 Rob Stock '$500 million dilemma: Who will pay to keep cash in circulation?' July 07, 2021. Downloaded from https://www.stuff.co.nz/business/125673851/500-million-dilemma-who-will-pay-to-keep-cash-in-circulation?rm=a



money can be exchanged for central bank money at face value underpins its acceptance as a form of money. Convertibility supports the trust people have in private money and, ultimately, the trust that underpins all financial transactions denominated in New Zealand dollars.[19]

5.2 Rationale for IAF allocation

The difference in value of the national CiT network that enables the circulation of cash to non-bank customer businesses versus Tier 1 banks supports the application of differential pricing for the provision of the CiT services and the allocation of that charge across Tier 1 banks using a method that is independent of Tier 1 bank use of CiT services. There are two related economic rationales for recovering the IAF from the Tier 1 banks, rather than all CiT customers:

- A specific comparator - the electricity distribution network (aka EDB) pricing principles set by the Electricity Authority (EA). In addition, the EDB pricing principles provide a rationale using IAF allocator that prevents Tier 1 banks from changing their share of the IAF by changing their participation in the circulation of cash;
- A general economic argument - Ramsey pricing.

5.2.1 EDB pricing principles set by the EA

Two of the EA pricing principles (see Appendix C for a full list) for EDB are particularly relevant for the allocation of the IAF:

a. Prices are to signal the economic costs of service provision, including by: …

(iii). reflecting differences in network service provided to (or by) consumers; and …

b. Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

Principle a (iii) - prices signal economic cost

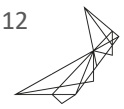
Principle a (iii) requires EDB to consider the difference in service customers receive from different assets within the network[20] and the costs of the network based on the share of the benefits received by each customer (volume of energy delivered or contribution to peaks). Customers that do not use parts of the network do not contribute to the cost of those assets – for example industrials that only use the high voltage network do not contribute to the cost of the low voltage network.

Principle b – shortfall recovery should not distort network use

Principle b requires networks that cannot fully recover costs to use pricing tools that cannot be avoided by customers changing network use and shifting their share of the recovery to other network customers. An example of the application of this principle to a network is the design of the residual charge for Transpower pricing. The residual charge was part of a transition of Transpower cost allocation to 'benefit-based' charging mainly for new assets or

[19] RBNZ 2022 'Future of Money – Cash system redesign Te Moni Anamata –He whakahou ite pūnaha moni, An issues paper inviting public feedback before 7 March 2022' page 14.

[20] For example, Vector identifies five asset groups and seven consumer groups in its 'ELECTRICITY DISTRIBUTION SERVICES PRICING METHODOLOGY. From 1 April 2025' and aims *'to allocate asset-related costs on the basis of a consumer group's usage (in percentage terms) of the assets during peak periods, as this usage drives the need for, and the size of, the assets.''*



asset upgrades. The residual charge was required to recover the majority of existing asset costs that initially could not be allocated using the benefit-based method. The residual charge was set as the share of gross maximum demand over a five-year period in the recent past and is adjusted to change in use with a long lag.

> *The residual charge would be spread widely amongst load customers (distributors and grid-connected industrials). The charge would be allocated based on the amount of electricity customers used in the past. It would be a generally fixed charge, which means customers would not be able to influence how much they have to pay by when they use the grid.*
>
> *3.20 As a consequence, the Authority considers that this fixed residual charge would:*
>
> *(a) collect the required revenue with minimum impact on customers' grid use and investment decisions; and*
>
> *(b) make it difficult for customers to avoid paying their share and shift it to others.*[21]

5.2.2 Ramsey pricing

Ramsey pricing proposes that in monopoly markets, the markup in prices above marginal costs for individual customers should be related to the price elasticity of demand – the more inelastic the demand from a customer, the higher the markup. Arguably, the demand for CiT services from non-bank customers is relatively elastic (because they can generally encourage their customers to use non-cash payment methods), while the demand from Tier 1 banks is inelastic (because there is no ready alternative to cash as a value anchor for the private money issued by Tier 1 banks). Accordingly, Ramsey pricing would support Tier 1 banks paying a much higher price for use of CiT services than non-banks.

6 Conclusion

ALL was formed by the merger of Armourguard CiT and ACM. It has a near monopoly on CiT services in New Zealand. However, despite estimated synergies of approximately $5 million, ALL is forecast to operate in 2025 and 2026 at a slightly larger EBITDA loss (deficit) than the sum of Armourguard and ACM EBITDA deficits for the twelve months ended 31 December 2024. Importantly, absent a change to ALL's current CiT fee structure, it shall be unable to generate sufficient cash flow to fund its operations, let alone the ongoing essential maintenance and required capital investment in critical infrastructure to ensure the delivery of robust, resilient and sustainable cash management and logistics services to the New Zealand cash economy.

ALL proposes modifying its current CiT fee structure to introduce and charge an IAF of approximately $30 million, which shall be allocated and paid solely by the 'Tier 1' banks. The Proposed IAF should be calculated as the minimum fee required to raise ALL's pro forma 2024 EBITDA margin, inclusive of the Proposed IAF. ALL has sized the Proposed IAF to satisfy its anticipated minimum needs, while recognising customer sensitivity to rising prices. After allowing for estimated interest costs, income taxes, and essential maintenance and

[21] Electricity Authority (2019) '2019 issues paper, Transmission pricing review, Consultation paper 23 July 2019.'

replenishment capital expenditures, ALL expects to generate pro forma 2024 after-tax operating cash flow of approximately $5.9 million, representing an estimated after-tax return on invested capital of approximately 5.9 percent, which is in line with the relevant comparator group 2024 return on investment of 5.75 percent.

NZIER suggests that consumer owned EDB, exempt from Commerce Commission price quality path regulation, should be used as the comparators for ALL as they are monopolies that 'negotiate' their pricing with their customers. In 2024, the comparator group of consumer owned EDB reported a simple and revenue weighted average EBITDA margin of 36 percent and 39 percent, respectively. These comparator group EBITDA margins compare to ALL's pro forma 2024 EBITDA margin, inclusive of the Proposed IAF, of approximately 24 percent. The lower margin Proposed IAF suggests ALL has sized the Proposed IAF to satisfy its anticipated minimum needs to ensure its ability to deliver robust, resilient and sustainable cash management and logistics services to the New Zealand cash economy.

The proposed allocation of the IAF solely to the Tier 1 banks rather than across all CiT customers is reasonable given the role access to cash plays in engendering confidence of bank customers in the digital payment services supplied to them by banks.

Appendix A CiT financial data

A.1 Financial reports

In considering the proposed approach by ALL, we have reviewed the accounts of both Armourguard and ACM, but have found the published accounts to be of limited relevance to the proposed accounts for the following reasons:

- Armourguard published accounts[22] describe the nature of the business as '*Security, guarding, patrol and response services and conveyancing of cash and other valuable services.*' The published accounts do not separate the CiT activity from general security services and the CIT services account for less than one third of Armourguard revenue. The CiT services are also much more capital intensive and less labour intensive than the general security services. Under confidentiality agreement, Armourguard has provided accounts for the CiT division of its business separately. These are analysed in section A.2 below;
- The ACM published accounts do separate CiT services from its other business activities. Assuming that the ACM services are predominantly for CIT work, the accounts imply a higher level of capital requirement than for the entire Armourguard business (manned security plus CiT). Under confidentiality agreement, Armourguard has also provided additional information on the financial position of ACM which is analysed in section A.3 below.

A.2 Armourguard

The Armourguard CiT services are the focus of this report.

[22] EVERGREEN NZ HOLDINGS Annual Report 31 December 2024 page 2 . Downloaded from the NZ Companies Register at https://app.companiesoffice.govt.nz/companies/app/service/services/documents/625A66AA6B0AD2D62DE222200418C992

In 2024, Armourguard CiT generated revenue of $36.1 million (just under 36percent of Armourguard revenue of $101 million) and incurred expenses of $40.2 million (about 39.7 percent of Armourguard expenditure). Armourguard CiT costs are increasing more quickly than revenue with EBITDA below zero and declining steadily since 2022.

Table 4 Armourguard revenue and expenditure

Values in $ million for year ended 31 December

	2022	2023	2024
TOTAL REVENUE	30.1	35.9	36.1
GROSS MARGIN	8.9	11.1	10.4
Total Overhead	10.2	13.8	14.5
EBIT	-1.3	-2.7	-4.1
Depreciation	1.2	1.5	1.5
EBITDA	-0.1	-1.2	-2.6

Source: NZIER

A.3 ACM

ACM is the main competitor of Armourguard CiT. For the twelve months ended 31 December 2024, ACM generated revenue of $21.0 million and incurred expenses of $25.2 million. Given its smaller customer and revenue base, ACM has had negative EBITDA since 2022 and a larger EBITDA deficit than Armourguard CiT.

ACM accounts show assets with much higher values than those for Armourguard, but the book value of these assets was written down to near zero in 2019 and held at this level through to 2024. This implies that ACM has been unable to recover the cost of its assets used in operations from the CiT fees charged to customers since at least 2019.

Table 5 ACM revenue and expenditure

Values in $ million for year ended 31 December

	2022	2023	2024
TOTAL REVENUE	**16.5**	**19.5**	**21.0**
GROSS MARGIN	**3.5**	**3.6**	**3.5**
Total Overhead	7.0	7.0	7.7
EBIT	**-3.5**	**-3.4**	**-4.2**
Depreciation	0.9	0.4	0.3
EBITDA	**-2.6**	**-3.0**	**-3.9**

Source: NZIER

A.4 ALL (pro forma including ACM)

ALL received Commerce Commission approval to acquire the CiT business of its main competitor ACM on 9 October 2024. The Commerce Commission approved the acquisition because it expected that one of the two CiT businesses would cease to operate or exit the marketplace in the near future without the merger. The merger was completed on 31 March 2025.

Table 6 ALL revenue and expenditure

Values in $ million for year ended 31 December

	2022	2023	2024
TOTAL REVENUE	**46.7**	**55.4**	**57.2**
GROSS MARGIN	**12.4**	**14.8**	**13.9**
Total Overhead	17.2	20.9	22.1
EBIT	-4.8	-6.1	-8.2
Depreciation	2.1	1.9	1.7
EBITDA	-2.7	-4.2	-6.5

Source: NZIER

In 2024, on a pro forma basis, ALL generated revenue of $57.2 million and incurred expenses of $65.4 million. ALL operating costs have increased more rapidly than revenue with negative EBITDA of -$2.7 million in 2022 which declined steadily to -$6.5 million in 2024. This growing EBITDA deficit has necessitated deferral of essential maintenance and capital investment in order to minimize required investment by the parent. Upon completion of the acquisition and subject to implementation of the Proposed IAF across all Tier 1 bank customers, ALL's parent intends to invest heavily to integrate and optimise the two CiT national operational footprints.

Appendix B Price quality path regulated EDB

B.1 Introduction

The following tables provide data on the EBITDA margins and return on investment for the EDB subject to price quality path regulation by the Commerce Commission. The objective of the price quality path regulation is that EDB revenues is limited to the amount required to cover an agreed level of operational expenditure plus a rate of return on the EDB regulated assets base determined by the Commerce Commission (based on the risk-free rate plus a risk premium) and an upward bias to reduce the risk of underinvestment. The Commerce Commission also sets a limit on the growth in the regulated asset base.

The tables indicate the EBITDA margins and return on investment were slightly higher for regulated than for community owned EDB.

Table 7 Regulated EDB revenue, operating expense, EBITDA and EBIT

Revenue in $million for the year ended 31 March

EDB	2022				2023				2024			
	Revenue	Operating Expense	EBITDA	EBIT	Revenue	Operating Expense	EBITDA	EBIT	Revenue	Operating Expense	EBITDA	EBIT
Alpine Energy	52.6	36.3	16.3	6.7	56.5	40.1	16.4	5.3	65.8	45.0	20.8	8.8
Aurora Energy	104.4	77.2	27.2	4.7	121.4	78.2	43.2	17.4	142.8	75.8	67.0	37.9
Eastland/Firstlight	31.3	18.5	12.8	6.3	30.3	19.4	10.9	3.8	30.0	19.9	10.1	2.3
EA Networks	41.4	21.8	19.6	8.7	41.9	23.8	18.1	6.5	45.7	26.3	19.4	7.0
Electricity Invercargill	17.6	10.9	6.7	3.2	18.5	11.6	6.9	3.1	18.5	10.8	7.7	3.7
Horizon Energy	33.5	17.8	15.7	9.0	32.1	18.9	13.2	6.1	35.2	20.0	15.2	7.7
Nelson Electricity	8.7	5.3	3.4	1.8	8.6	5.2	3.4	1.7	7.4	5.1	2.3	0.5
Network Tasman	37.7	25.4	12.4	5.0	37.5	25.5	12.0	4.8	38.3	26.0	12.3	5.5
Orion NZ	234.0	132.8	101.2	55.7	234.8	141.4	93.4	43.0	241.9	144.2	97.8	42.2
OtagoNet	33.5	17.5	16.0	7.2	32.6	18.7	13.9	4.2	34.3	17.6	16.7	6.1
Powerco	352.4	211.8	140.6	47.1	393.5	221.9	171.6	68.0	411.8	221.7	190.1	75.1
The Lines Company	40.7	22.8	18.0	8.0	42.3	22.8	19.5	8.4	41.7	24.8	16.9	5.2
Top Energy	48.2	27.1	21.1	8.9	42.7	28.1	14.5	2.6	43.6	30.6	13.0	-0.1
Unison Networks	140.2	81.2	59.0	28.9	146.5	87.8	58.7	25.5	147.4	81.9	65.4	28.8
Vector Lines	588.8	338.0	250.8	116.9	599.3	351.1	248.2	102.3	646.9	380.5	266.4	110.9
Wellington Electricity	159.7	96.2	63.5	35.8	158.4	98.0	60.4	30.1	146.1	92.9	53.2	20.8
Median	**44.8**	**26.2**	**18.8**	**8.4**	**42.5**	**26.8**	**17.2**	**6.3**	**44.6**	**28.5**	**18.1**	**7.4**
Simple Average	**120.3**	**71.3**	**49.0**	**22.1**	**124.8**	**74.5**	**50.3**	**20.8**	**131.1**	**76.4**	**54.6**	**22.7**

Source: NZIER

Table 8 Regulated EDB revenue, EBITDA and EBIT margins

Revenue in $million for the year ended 31 March

EDB	2022			2023			2024		
	Revenue	EBITDA Margin	EBIT Margin	Revenue	EBITDA Margin	EBIT Margin	Revenue	EBITDA Margin	EBIT Margin
Alpine Energy	52.6	31%	13%	56.5	29%	9%	65.8	32%	13%
Aurora Energy	104.4	26%	5%	121.4	36%	14%	142.8	47%	27%
Eastland/Firstlight	31.3	41%	20%	30.3	36%	13%	30.0	34%	8%
EA Networks	41.4	47%	21%	41.9	43%	15%	45.7	42%	15%
Electricity Invercargill	17.6	38%	18%	18.5	37%	17%	18.5	42%	20%
Horizon Energy	33.5	47%	27%	32.1	41%	19%	35.2	43%	22%
Nelson Electricity	8.7	39%	21%	8.6	40%	20%	7.4	31%	7%
Network Tasman	37.7	33%	13%	37.5	32%	13%	38.3	32%	14%
Orion NZ	234.0	43%	24%	234.8	40%	18%	241.9	40%	17%
OtagoNet	33.5	48%	21%	32.6	43%	13%	34.3	49%	18%
Powerco	352.4	40%	13%	393.5	44%	17%	411.8	46%	18%
The Lines Company	40.7	44%	20%	42.3	46%	20%	41.7	40%	13%
Top Energy	48.2	44%	18%	42.7	34%	6%	43.6	30%	0%
Unison Networks	140.2	42%	21%	146.5	40%	17%	147.4	44%	20%
Vector Lines	588.8	43%	20%	599.3	41%	17%	646.9	41%	17%
Wellington Electricity	159.7	40%	22%	158.4	38%	19%	146.1	36%	14%
Median	**44.8**	**42%**	**20%**	**42.5**	**40%**	**17%**	**44.6**	**41%**	**16%**
Simple Average	**120.3**	**40%**	**19%**	**124.8**	**39%**	**16%**	**131.1**	**39%**	**15%**
Weighted Average		**41%**	**18%**		**40%**	**17%**		**42%**	**17%**

Source: NZIER

Table 9 Regulated EDB regulatory investment value(RIV), vanilla WACC and post-tax WACC

RIV in $million for the year ended 31 March

EDB	2022			2023			2024		
	Closing RIV	Vanilla WACC	Post Tax WACC	Closing RIV	Vanilla WACC	Post Tax WACC	Closing RIV	Vanilla WACC	Post Tax WACC
Alpine Energy	244.3	9.12%	8.82%	274.1	8.43%	7.92%	293.2	6.66%	5.96%
Aurora Energy	615.0	7.27%	6.98%	702.6	8.71%	8.19%	791.6	8.04%	7.34%
Eastland/Firstlight	183.7	9.71%	9.41%	0.0	8.27%	7.97%	0.0	5.31%	4.61%
EA Networks	305.6	9.75%	9.45%	325.9	8.91%	8.40%	341.6	6.24%	5.54%
Electricity Invercargill	94.7	9.55%	9.25%	101.5	9.28%	8.77%	105.6	6.92%	6.22%
Firstlight Network	0.0	0.00%	0.00%	195.0	8.27%	7.97%	203.9	5.31%	4.61%
Horizon Energy	150.7	13.41%	13.41%	161.2	10.62%	10.62%	167.4	8.84%	8.84%
Nelson Electricity	44.0	9.96%	9.66%	46.8	9.55%	9.04%	47.7	4.99%	4.29%
Network Tasman	187.9	8.60%	8.30%	205.2	8.29%	7.77%	219.8	5.88%	5.17%
Orion NZ	1244.7	10.32%	10.02%	1379.7	9.13%	8.61%	1485.8	6.29%	5.59%
OtagoNet	218.8	10.02%	9.72%	239.7	8.67%	8.16%	259.5	6.39%	5.69%
Powerco	2197.1	8.40%	8.10%	2483.5	8.88%	8.37%	2675.7	6.45%	5.75%
The Lines Company	230.3	9.64%	9.34%	242.3	9.67%	9.15%	262.8	5.69%	4.99%
Top Energy	302.8	9.30%	9.00%	320.1	7.57%	7.06%	341.6	4.11%	3.41%
Unison Networks	698.3	10.26%	9.96%	763.8	9.51%	9.00%	841.2	6.85%	6.15%
Vector Lines	3510.3	9.45%	9.15%	3745.4	8.88%	8.37%	4018.8	6.21%	5.51%
Wellington Electricity	697.7	11.17%	10.87%	754.6	10.10%	9.59%	795.0	6.34%	5.63%
Median	244.3	9.64%	9.34%	274.1	8.88%	8.37%	293.2	6.29%	5.59%
Simple Average	642.7	9.17%	8.91%	702.4	8.99%	8.53%	756.0	6.27%	5.61%

Source: NZIER

Appendix C EDB pricing principles

C.1 Benefit of consumers is the foundation for EDB pricing principles

As part of the EA regulatory objective *'to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers*', the EA set pricing principles[23] that apply to EDB irrespective of whether they are subject to price quality regulation by the Commerce Commission:

a. Prices are to signal the economic costs of service provision, including by:

i. being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);

ii. reflecting the impacts of network use on economic costs;

iii. reflecting differences in network service provided to (or by) consumers; and

iv. encouraging efficient network alternatives.

b. Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

c. Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

i. reflect the economic value of services; and

ii. enable price/quality trade-offs.

d. Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

[23] EA October 2022, 'Distribution Pricing, Practice Note, Second Edition v 2.2, 2022', page 4.