



# 2019 Annual Report to the Beneficiaries

(1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019)

*Growing and enhancing our community asset for the sustainable benefit of the Trust's  
beneficiaries both now and in the future.*



## Trustee Report

E ngā mana, e ngā reo, e ngā karangatanga maha, tēnā koutou katoa.

*Greetings to all authorities, members and affiliations.*

As Chair of the Waitomo Energy Services Customer Trust it is my privilege to present this report on behalf of Waitomo Energy Services Customer Trust for the year ended 31 March 2019.

### **Waitomo Energy Services Customer Trust**

Waitomo Energy Services Customer Trust holds 11,846,808 shares in The Lines Company on behalf of WESCT Beneficiaries.

### **Trustees**

The current trustees of WESCT are;

Erin Gray (Chair and A Trustee), Peter Keeling (Deputy Chair and B Trustee), William Oliver (A Trustee), Nigel Chetty (A Trustee), Kyle Barnes (B Trustee), Janette Osborne (Appointed Trustee).

The process was undertaken to fill the two B Trustee roles which were left vacant in the 2018/2019 financial year. These roles were filled by both Peter Keeling and Kyle Barnes. The triennial election for the B Trustees also occurred in this financial year, both Peter and Kyle stood unopposed. The elections for A Trustees will occur in 2020.

As a Trust we have made some solid progress with our foundation documents and setting a vision, mission, and a workplan which is formed around a solid strategy with collective trustee input. A copy of WESCT's updated vision, mission, goals and values statement can be found at the end of this report.

In this financial year there were a total of 34 meetings, 15 of which were scheduled trustee meetings. Individual Trustees attended between 20 and 27 meetings each.

### **Trust Functions**

As the single shareholder, the Trust performs key functions on behalf of its beneficiaries;

1. Appointing and monitoring the performance of the Directors of The Lines Company.
2. Determining with the company a Statement of Corporate Intent and at this point confirming the approximate distribution amount that will be paid to beneficiaries.
3. Publicly reporting on the company's and the Trusts performance for the financial year, keeping in mind the performance indicators that the company had set within the Statement of Corporate Intent.
4. Every six years, the Trust must also consider whether the current ownership of the company should continue.

Other than the functions outlined, the Trust have no authority or power to be involved within the every day management and operation of the company. It is important for beneficiaries to understand that the Trust is only able to exercise it's influence through the recruitment and management of directors of the company and through the Statement of Corporate Intent process which includes a letter of expectation from WESCT.

The trustees are committed to the current ownership model of The Lines Company, and will continue to communicate the benefits for beneficiaries and our local communities. The next ownership review for The Lines Company will happen in 2020.

### **WESCT Discount**

WESCT is proud to deliver to our beneficiaries a discount of \$6.4million including GST as a return for this financial year. This discount is made possible through the ownership of TLC by WESCT. For many beneficiaries the amount of discount will equate to approximately two months worth of lines charges. The discount will appear as a credit on WESCT beneficiaries December invoices from The Lines Company.

### **Trust performance 2018/2019**

The audited financial statements of Waitomo Energy Services Customer Trust can be obtained from the Trust Secretary, P O Box 209, Te Kuiti 3941. They will also be available on the WESCT website [www.wesct.org.nz](http://www.wesct.org.nz).

The Trust chose not to take a dividend of \$200,000 from The Lines Company in the previous financial year as we had sufficient funds within WESCT already to cover the operating costs of the Trust for the year.

The Trust invested in different communication channels this year whereby we saw an increase in beneficiary communications expenditure.

With a whole new team of trustees we felt it important to attend the Energy Trusts of New Zealand conference, which is the corporate body which supports and guides all energy trusts such as WESCT across New Zealand. Therefore an increase in costs for Conference fees has been seen. A Trustee also attended the Downstream Conference in Auckland, to ensure the Trust stays abreast of the significant changes that new technologies will have on our network in the not too distance future.

The Trust met and engaged with the company more in this financial year compared to the previous year. In addition the full number of Trustees and the Trust Secretary were engaged for the whole financial year compared to last year where there was a period without a secretary and reduced Trustee numbers. This has led to an increase in Trustee fees and as a consequence Secreterial fees were also higher.

The Trust has taken a prudent yet realistic approach to Trust finances. As trustees we are committed to keeping costs down where possible but not at the cost of quality of advice or services.

## **Trust and Company Engagement**

A key function of the Trust is to monitor the performance of TLC's Directors. As part of that workplan an annual performance review and discussion with each TLC Director was completed.

These reviews provide an opportunity for the Trust to meet individually with each of the Directors and gauge how each director's performance and expertise is contributing towards the company meeting its goals. It also provides time to reflect on the prior year and for the directors to articulate what they believe the company needs to focus on for the next 12 months.

The annual director reviews are extremely valuable to ensure the Trust has a full awareness of the expertise and knowledge that each director brings to the table, and how these can be utilised strategically for the benefit of the company and therefore WESCT beneficiaries.

### Company directors

Following the resignations of Tim Densem and Richard Krogh WESCT took the opportunity to recruit two new directors to the TLC Board which gave the board 6 directors. Through the recruitment process over 60 expressions of interest were received and subsequently Craig Richardson and Andrew Johnson were appointed. Both began their tenures on the 1<sup>st</sup> of October 2018.

The directors of the company as at 31 March 2019 were Mark Darrow (Chair), Roger Sutton, John Rae, Simon Young, Andrew Johnson, Craig Richardson.

### Engagement with Senior Leadership Team

The Trust has met with the senior leadership team and the board of TLC numerous times throughout the year to discuss strategic direction, and to receive reports on company performance. These meetings are extremely beneficial and provide the opportunity for the Trust to discuss future trends in the industry and the impact that disruptive technologies may, and are having on our network.

These meetings are also useful to discuss regulatory changes that may be coming, which will affect future revenue and ultimately beneficiary discounts. Some of the meetings were also used to work with TLC Directors and senior management on the Statement of Corporate Intent.

### Statement of Corporate Intent

Along with selecting and reviewing the performance of Directors for TLC the annual Statement of Corporate Intent ("SCI") process is arguably the most important formal annual activity for the Waitomo Energy Services Customer Trust ("WESCT").

The SCI document is effectively a summary of the yearly budget and sets the key performance indicators for the company, for the year. These indicators are how the Trust holds the company to account for their performance. Most importantly for our beneficiaries, the Trust and the company agree on the amount of discount / dividend which will be passed on to our beneficiaries.

The TLC directors are responsible for the SCI process and document. They are legally obliged to act in the best interest of the company so their plans, including the WESCT dividend and customer discount, must cater for this.

WESCT formally communicated clear goals to the directors, by way of a letter of expectation which outlines a number of key points that WESCT wishes the board to take into consideration when preparing their annual plan, budget, and the SCI document. Within this background WESCT set clear expectations for the TLC directors in the following areas:

### **Kaitiakitanga/Custodianship**

- TLC is seen as an important intergenerational asset for the community;
- Long term asset maintenance and building should be a strong focus; and
- Future proofing to meet the changing technology needs of our community is required.

### **Te Hapori/Community**

- TLC is a key economic enabler of our community; and
- Support of local social initiatives and regional development is expected.

### **Nga Whakatutukitanga/Performance**

- The operating environment over a large geographical area with challenging topography and a low population density is acknowledged;
- There is an expectation of innovation, resourcefulness, and collaboration to provide a reliable, safe and cost-efficient service that results in a high reliability of supply; and
- Any investments outside the core distribution network must be carefully considered and enhance the longer-term viability of the company.

### **Ō mātou tāngata/People**

- There is the promotion and implementation of a fully integrated health and safety culture and workplace for staff and the general public.

The completed Statement of Corporate Intent 2019/2020 with the WESCT Letter of Expectation included can be viewed on The Lines Company Website in the disclosures section;  
<https://www.thelinescompany.co.nz/site/uploads/2019/07/2019-07-Statement-of-Corporate-Intent.pdf>

### **Company performance**

The company was unable to avoid a number of financial impacts this year, and as such have reported a loss after tax of \$1.5million. There are a number of reasons why this has occurred including moving from billing in advance to billing in arrears under the new TOU pricing which impacted cashflow by \$3 million.

The business made the conscious decision to move to Time of Use pricing, after much consultation with it's customers and key stakeholders. WESCT reported on this change at the meeting of beneficiaries last year however the anticipated financial impact has not been realised until this financial year. To reduce the impact of this pricing change and to allow customers time to adjust to the new pricing methodology the company implemented a transitional pricing discount which

ensured no individual customer paid 20% more than under the previous pricing. In the 2018/19 year this reduced revenue by \$1.9m

Some time ago, TLC invested in 36% of a start up technology business Embrium Holdings For a number of reasons, the Board have taken a conservative decision to fully impair this investment which meant a total write down of \$3.2 million. The Lines Company has subsequently taken over all the assets of the company and continues to actively look for ways to extract maximum value.

Alongside a large capital investment programme, the company also took an extra depreciation charge of \$1.3million due to a historical asset register issue.

The majority of reasons for the loss are one off events and are not expected to be repeated in the future. As a Trust we are acutely aware that this is the first year that TLC have ever reported a loss, and it is not something that we as a Trust or the company want to see as a continued trend.

We ask our beneficiaries to be cognissant of the fact that some of these costs were unable to be avoided by the company. The financial impact realised by TLC this year is not ideal, however we are satisfied that any financial impact has not come at the cost of the company's moral and ethical responsibilities or its commitment to providing a safe and reliable network.

## **Reviews and Reforms**

### Electricity Price Review

In April 2018, the Minister of Energy and Resources commissioned an independent review into New Zealand's electricity market. This was because electricity prices, especially for residential consumers, had increased faster than inflation for many years, putting pressure on household budgets. It is expected that the outcome of this review will have significant impacts on the generation, network distribution and retailing sectors of the industry, which will include TLC.

### Trust law reform

The Trusts Act received Royal assent on 30 July 2019. The Act updates and improves the general law governing trusts for the first time in more than 60 years. The Act provides better guidance for trustees and beneficiaries and makes it easier to resolve disputes.

With this Act now in force it will be appropriate to review the WESCT Trust Deed to ensure that it is still fit for purpose. This is in the WESCT forward workplan.

## **Community and Engagement**

As a Trust we acknowledge that we weren't able increase our communication with our beneficiaries this year. To remedy this we have a developed a communication strategy and action plan to ensure key lines of communication will be made available for beneficiaries in the coming year. As part of this plan a website for WESCT has been developed that will enable beneficiaries to easily find out what the role of the Trust is in regard to TLC and the wider community, what the Trust is doing on behalf of beneficiaries and what we can achieve for them. This website will be officially launched in early 2020.

We have encouraged beneficiaries to attend the Annual Meeting of Beneficiaries to receive up to date information on how the Trust and The Lines Company are performing, and what future plans the Trust has in place.

### Maru Trust

As a Trust we were thrilled to be a part of the inception and to then stand behind TLC on their journey with the Maru Trust. The Maru Trust is an energy efficiency trust set up to address the serious issues related to energy poverty within our network area due to the poor state of housing and accommodation. WESCT are aware of the correlation between high lines charges, and the poor condition of some of our beneficiary or customer houses connected to our network. These homes are expensive and inefficient to heat due to poor insulation and poor or ineffective heating sources.

As a collective, both WESCT and TLC agreed to look at ways in which we could assist beneficiaries and customers to overcome these issues.

Maru Trust is focused on providing warmer, healthier homes through insulation and in some instances remedial work. We are pleased to report that this trust is making a significant difference in our community and will aid in reducing the number of sick families and children every winter in our community, and will also look to reduce lines bills of those families who were lucky enough to have their homes insulated this year.

I would like to take this opportunity to thank our trust secretary Celina Yapp. Celina is a vital part of our trust and works extremely hard behind the scenes.

I would also like to publically acknowledge all of our trustees for the work they have achieved this year. It has been a year of considerable change with many challenges and despite this, WESCT are pleased to be able to deliver a considerable discount to beneficiaries.

Tēnei te mihi ki a koutou katoa.



Erin Gray  
**WESCT Chairperson**

# WAITOMO ENERGY SERVICES CUSTOMER TRUST

## STRATEGIC DIRECTION

### Vision

Growing and enhancing our community asset for the sustainable benefit of the Trust beneficiaries, now and in the future.

### Mission

- To manage the Waitomo Energy Services Customer Trust's investment in and ownership of The Lines Company Ltd in a responsible and diligent manner.
- To ensure that the value of the investment is protected, enhanced and applied for the benefit of customers as defined in the Trust Deed.
- To encourage and facilitate The Lines Company Ltd in meeting its objective of being a successful business in promoting and providing an efficient and reliable electricity distribution system available throughout the district.
- To meet any other purpose and object described in Clause 3 of the Trust Deed dated 25th March 1993 and any amendment.

### Goals

- 1) To maximise shareholder and consumer value for Trust beneficiaries through Trust ownership of The Lines Company Ltd (TLC).
- 2) To be an efficient energy enabler.
- 3) To optimise the value of the return on the Trust's shareholding.
- 4) To review the Trust Deed and seek advice and mandate for any amendment deemed to be appropriate.
- 5) To implement an effective process of succession planning for Trustees and Directors.
- 6) To develop effective communications with our stakeholders

### Values and Principles

- Demonstrating integrity through our actions.
- Being transparent, positive and ethical in our work.
- Leading by example.
- Professional and organised in our work as Trustees.
- Respectful of the purpose of the Trust and in our dealings with others.
- Ensuring we are true to the Trust's vision and values.