

# **Waitomo Energy Services Customer Trust**

## **Report and Recommendation**

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**June 4th, 2002**

### Purpose

Paragraph 4.4 of the Trust Deed requires that:

"At least one month prior to the conducting of the Poll the Trustees shall prepare and publish a report containing:

- (a) An analysis of the performance of the Trust to the date of the report with a discussion of the advantages and disadvantages of continued Trust ownership of the Shares.
- (b) A discussion of the advantages and disadvantages of the transfer of the Shares to Customers or to Local Authorities or a sale of the Shares and a transfer of the proceeds to Customers or to local authorities, and...
- (c) Any comments by the Directors of the company as to the most appropriate form of the Shares."

The Trustees have chosen to engage an independent person (The Author) to address requirements of paragraphs (a) and (b) above.

### References

The author of this recommendation was also the author in the same capacity in June 1996. The report that was produced that time in terms of Definitions, Methodology, and Key Criteria is still valid in 2002. For this reason that report is included here as an Appendix so that interested parties may reacquaint themselves with that information should they want to.

### Significant Changes in Structure and Operation

Because of governmental requirements energy companies operating as such prior to 1999 were required to become line companies or energy retailers and/or energy generators. Waitomo Energy Services elected to become a lines company. In that transition the new entity acquired a network, which doubled its geographic operating area.

Because of this the analysis conducted by the author has been divided into the last six years as required, but in addition, the last three years has been looked at independently.

### Performance of the Trust

Our analysis shows that the Trust continues to perform very well for its "Customers as Customers" and its "Customers as Beneficial Owners".

The key business indicators are included as an appendix to this report.

Over the past six years the average growth rate in Revenue is small, approximately 1 percent per annum.

Despite this all of the other key financial indicators have increased. When key financial indicators are positive and growing faster than revenue in a sustained manner this is evidence of a very well run and managed enterprise.

In addition to achieving this outcome the company has been able to increase financial rewards to the Customers by increasing discounts returned to them. This increase has been 32 percent per annum since 1996 and has averaged 9 percent per annum over the past three years.

Appendix 1

Key Business Indicators for the past Seven (or 6) Years

	2002	2001	2000	1999	1998	1997	1996
Revenue	\$21,477	\$20,579	\$20,249	\$22,229	\$21,410	\$22,178	\$20,307
Surplus after Taxation	\$6,204	\$5,904	\$5,493	\$3,424	\$3,192	\$3,167	\$2,373
Shareholders Equity	\$59,880	\$54,740	\$53,065	\$43,142	\$42,222	\$40,908	
Return on Average Equity	11.40%	11.60%	11.40%	8.60%	8.10%	7.60%	
Earnings per Share (cents)	47	45	42	26	24	21	15
Discounts Returned to Customers	6600	6315	5197	3585	2802	2240	
Unplanned Outages per customer (hours)	4.4	5.2	4.0	4.0	5.6	5.1	

Average Annual Growth Rate  
Since 1996 Last 3 Years

Revenue	0.8	2.0
Surplus after Taxation	23.1	4.3
Shareholders Equity	7.7	4.3
Return on Average Equity	8.3	0.0
Earnings per Share (cents)	30.5	4.0
Discounts Returned to Customers	32.4	9.0
Unplanned Outages per customer (hours)	-2.4	3.4

Appendix 2

Report

"Waitomo Energy Services Customer Trust Report and Recommendation" dated 26 June, 1996 (attached).

## Waiotomo Energy Services Customer Trust

Further, the return per share has increased by 30 percent per annum since 1966 and has increased at 4 percent per annum over the past three years. This has been achieved whilst increasing the total assets from \$41 million to \$70 million.

There are very few enterprises in New Zealand that could claim this level of exemplary performance.

The comments made on page 5 of the June report are still valid and need not be repeated here.

The decision to become a Lines Company and the execution of that transition has delivered a new level of value to the owners. That transition caused a reduction in Capital Ratio of 17 percentage points. Since then 4 percentage points have been regained and that ratio is standing at a very healthy 86 percent.

### Recommendation

The author recommends that "Customers as Beneficial Owners" keep the current structure "as is". That is the shares should continue to be held by the Trust for the next six-year period.

We do not believe any medium or long-term value would be provided to the Trust or to its "Customers as Beneficial Owners" in transferring shares to Customers or to Local Authorities over the next six years.

The Trustees are required to include comments by the Directors in regard to the transfer of shares in their report to customers. This report was commissioned by the Trustees as an independent and external view.