

Waitomo Energy Services Customer Trust

Trustees Report to our Customer Beneficiaries

He hononga ki te rangi, he hononga ki te whenua

He hononga ki te Kīngi Māori e tū nei

He hononga ki ngā iwi katoa, he ora nui tonu

Ko te pō nui ki a rātou te hunga wairua

Ko te ao mārama ki a tātou te hunga ora

E ngā mana, e ngā karanga maha, tēnā rā koutou katoa

Our connection with the celestial and terrestrial spaces

Our connection with the Māori King and all communities are central

The great night is for the divine, and the world of light is for the mortal

O notable and distinguished, greetings to you all.

It is my privilege to present this report on behalf of the Trustees of Waitomo Energy Services Customer Trust for the year ended 31 March 2018.

Waitomo Energy Services Customer Trust

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

Trustees

The Trust has had several changes within the trustee guard in the past financial year. As at 31 March 2018, the Trust comprised of Erin Gray (Chair), Nigel Chetty (Deputy Chair), William Oliver and Janette Osborne, after receiving the resignations of long-time Trustees Ivan Haines and Kevin Tregoweth who both represented the B Trustees within the Trust composition. At this stage in the report it is important to recognise the contribution and dedication that Kevin and Ivan have made to the Trust for a number of years.

Whilst it is not relevant to this financial year it is to be noted that a B Trustee election was held to fill the terms of the resigning Trustees. These roles were filled by Peter Keeling and Kyle Barnes.

The process for the triennial election of B Trustees starts in February 2019 which will mean that both Peter Keeling and Kyle Barnes will need to re-stand for their trustee roles.

In this financial year the Trust met eleven times for Trust meetings, both monthly meetings and specific meetings either with members of the board of directors or with part of the executive team of The Lines Company.

Foundation of the Trust

Given that there have been several changes of late within the Trust, the annual report is an appropriate channel to communicate, restate and remind beneficiaries of the foundations and composition of the Trust.

The Trust was originally formed pursuant to Section 27 of the Energy Companies Act 1992 whereby the Waitomo Energy Services Customer Trust (WESCT) was formed to hold shares in and a debenture issue by the Company. At the time the shares were issued by the body corporate, the Waitomo Electric Power Board, which was constituted under the Electric Power Boards Act 1925.

The beneficiaries of the Trust are considered within the Trust Deed as a 'Customer' (which could be an individual, an organisation or entity, joint venture or partnership, a trust, government department or authority) who are then defined as:

Any person/s who at any appropriate date designated from time to time by the Trustees is named in the records of the Company as a person who owns or uses an electrical installation within the District which is connected to the Company's distribution network and who is liable in terms of and under the contract to the Company for payment of any amount to the Company for the supply by the Company of electricity line services to that person.

The Trust currently owns and holds for the beneficiaries a 100% shareholding in The Lines Company.

There are many benefits that come from this ownership model, for the company and our communities, however the biggest advantage is the fact that the Trustees are able to work alongside the company board to find ways of providing a return back to you, the beneficiary, each year.

The ownership model is tested every six years, in which a poll is undertaken across all beneficiaries to see whether there is still confidence in the current ownership structure. There are many things to consider should the ownership structure change, firstly; the complexities surrounding share distribution to the beneficiaries and secondly; private ownership of the company may not see as much investment in the local economic development of our communities.

The current Trustees are committed to retaining ownership of The Lines Company and will endeavour to continuously communicate the benefits of the current ownership structure to WESCT beneficiaries.

The next ownership review for WESCT will be in 2020.

WESCT Discounts for year end 31 March 2018

WESCT is extremely proud to deliver to the Trust beneficiaries a return of \$5.6M in customer discounts through its ownership in The Lines Company. The value of the annual distribution to beneficiaries is a discussion which takes place between the company board and the Trust each year.

Trustee Role

As Trustees of WESCT one of our main tasks is the appointment of directors to The Lines Company board.

We are extremely lucky to have an experienced board of directors progressing the business forward, as at 31 March 2018 our current directors for The Lines Company are:

- Mark Darrow – Chair
- Richard Krogh
- John Rae
- Simon Young
- Roger Sutton
- Tim Densem

The Trustees continue to review the directors performance each year and assess whether each director's skillset and expertise is still relevant.

Company Performance

WESCT is proud to report that The Lines Company reported a Net Profit After Tax (NPAT) of \$4.6m.

In this financial year we have seen the company go from strength to strength as they have increased their engagement and relationships with their customers. A significant outcome of this enhanced communication was the review of the current demand pricing and how this could possibly be altered to meet customers' expectations. Whilst it is an operational issue and lies outside of the Trust's executed powers, the Company's decision in October 2017 to change to Time-Of-Use pricing means that customers from 1st October 2018 will have the ability to influence change in their monthly bill.

On behalf of the Trust we would like to commend the company board, management and staff on the way they have handled this major project. The Company has kept the lines of communication open regarding the new pricing structure and has created multiple channels and opportunities to meet and discuss changes with customers. A huge amount of work has gone into the project and it is comforting to see that the company is taking a step in the right direction, in terms of considering customer and beneficiary feedback.

Financial accounts

The consolidated financial statements can be accessed by contacting the Trust secretary at info@wesct.org.nz who will supply a copy of the accounts upon receipt of a beneficiary's TLC account number. This information can also be accessed at the local public libraries, Ōtorohanga, Te Kūiti, Te Awamutu and Mangakino.

The accounts have been audited by Staples Rodway, as a three-year contract was negotiated in the previous financial year.

The increase in legal fees for this year was due to Trustees deeming it necessary to seek legal advice on a number of matters pertaining to the Trust Deed and to provide confidence to the beneficiaries that matters were undertaken systematically and legitimately. In addition, the triennial cost for the 'A' Trustee election is reflected in this financial year's accounts, which also incorporated the necessary advertising and additional Secretariat fees.

Strategic direction and focus

The Trustees have all made a commitment to ensure that the Trust is strategically focused for its beneficiaries. The Trust will do this by working closely with the company over the coming year, to engage in strategic discussions and supporting the company with any regulatory issues that may arise out of the current electricity pricing review.

As a Trust we believe it's important to keep abreast of the electricity industry by attending the Energy Trust New Zealand Conferences which are held twice per year. These conferences provide the opportunity for all the Energy Trusts to meet and discuss current issues within the industry and suggested approaches that need to be considered by Trustees. These conferences are very beneficial and all four new Trustees have attended at least one conference in this financial year.

We are aware of the major disruptions that emerging technologies present and the impact that these may have on our network. As Trustees we know that these technologies need to be considered and will keep this at the front of our minds when having any discussions with our company directors.

I want to make special mention to Viv Haddad our previous contracted Secretary. Viv worked tirelessly for the Trust and we would like to acknowledge her contribution to the Trust and our communities.

I would like to personally acknowledge the Trustees for the hard work that they have put in this year. We now have a solid foundation to build upon and we look forward to reporting our progress back to the beneficiaries next year.

Tēnei te mihi ki a koutou katoa.



Erin Gray

Chairperson