



# 2020 Annual Report to the Beneficiaries

(1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020)



WESCT Trustees 31st March 2020

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

## Trust Directory

<b>Nature of Business:</b>	Customer Electricity Trust
<b>Business Address:</b>	PO Box 209 Te Kūiti 3941
<b>Secretariat Services:</b>	C Yapp
<b>Phone:</b>	027 PH WESCT (027 74 93728)
<b>Email:</b>	info@wesct.org.nz
<b>Website:</b>	www.wesct.org.nz
<b>Registered Office:</b>	C/- The Lines Company Limited King Street East Te Kūiti
<b>Accountant:</b>	Bob Strawbridge McKenzie Strawbridge Maniapoto Street PO Box 37 Ōtorohanga 3940
<b>Bankers:</b>	Bank of New Zealand 354 Victoria Street Level 1 Hamilton Banking Centre Hamilton 3204
<b>Auditors:</b>	Staples Rodway Corner London & Victoria Streets PO Box 9159 Hamilton 3240
<b>Accounting Period:</b>	Year Ending 31st March 2020
<b>Inland Revenue Number:</b>	Trust 61-338-873

## 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<sup>st</sup> March 2020.

Firstly, I would like to acknowledge the significantly different result from The Lines Company (“TLC”) team for FY20. Due to several circumstances, FY19 saw a reported post-tax loss of \$1,593,000. The TLC Board and the full TLC staff team have turned this result around and achieved a comparable profit of \$6,729,000. The post-tax loss to a profit outcome will be covered in more detail later in the report.

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

The core purpose of the Waitomo Energy Services Customer Trust (“WESCT”) is to hold 11,846,808 shares in The Lines Company on behalf of WESCT Beneficiaries. As a result of the work of previous trustees, this represents 100% of the Company.

Through this ownership, the WESCT beneficiary customers received a discount from TLC of \$5,600,000 during the 2019/20 year. Including GST this equated to \$6,440,000.

### **Trustee Update**

The trustees at the end of FY20 were:

Peter Keeling (chair and B trustee), Erin Gray (deputy chair and A trustee), William Oliver (A trustee), Nigel Chetty (A trustee), Cathy Prendergast (B trustee), Janette Osborne (appointed trustee).

There was a small change to the trustees during the 2019/20 year. After a short but significant period on the Trust Kyle Barnes resigned to concentrate his efforts with the Waitomo community. In March 2020 there was a B trustee by-election process undertaken. Cathy Prendergast, who with her dairy farming family lives at Arohena in the northern part of our WESCT area, was elected to fulfil that role.

The Trust has operated as a cohesive unit throughout the year. It is still important to note though as trustees, we come from different parts of our rohe and have diverse work backgrounds so, we bring different ideas and perspectives to the table – and we do debate these!

In this financial year, there were a total of 28 meetings - 11 of which scheduled monthly trustee meetings. Individual trustees attended between 17 and 22 meetings each.

## **Trust Functions**

During the 2019/20 period the Trust continued to perform the key functions on behalf of its beneficiaries:

1. Appointing directors of TLC;
2. Director review meetings;
3. The determination of the 2020 Statement of Corporate Intent with the Board, which includes the distribution amount to pay to beneficiary customers;
4. Publicly reporting on both the TLC and WESCT performance for the financial year, keeping in mind the performance indicators that TLC had set within the Statement of Corporate Intent;
5. Preparing information for the 2020 ownership review of the Trust ownership model of TLC – the results of which may be available at the time of the annual meeting of beneficiaries.

Apart from the functions outlined above, the Trust does not have the authority to get involved within the day-to-day management, operations, or Company governance. The Trust is only able to exercise its influence through the recruitment of the TLC directors and through the Statement of Corporate Intent process, which includes a letter of expectation from WESCT, and the ongoing and frequent consultation between the Board and the Trust.

## **Director Update**

During 2019/20 John Rae and Roger Sutton left the Board. John had been on the Board for over five years and was a major contributor to the Board function. Roger was on the Board for two and a half years after heading the Company's price review project as an independent contractor.

The trustees were then very pleased to appoint Bella Takiari-Brame to the Board. Bella is a local person having been born and raised in Mahoenui and Piopio. Bella is a chartered accountant, has significant energy sector work experience, and considerable governance experience, including the local Maniapoto Māori Trust Board where she is a generally elected Trustee and currently the interim CEO.

I should also note and acknowledge that after the end of this reporting period Simon Young retired from the Board after ten years-service, and we welcomed Simon Fleischer to the Board. We have asked the Board to operate with five directors in the next period.

## **WESCT 2019/20 Financial Performance**

As reported last year, WESCT did not take a dividend in the 2018/19 year – the Trustees decided to utilise cash on hand to meet the operating expenses of that year.

Reinstatement of the dividend in 2019/20 year, contributed to an overall income of \$285,000, an increase of \$195,000 over the previous year.

Operational expenditure was \$314,000, which was up \$61,000 on the prior year. A key area of increased expenditure was an extra \$51,000 on Consultants and Legal Fees. Two major items contributed to this:

1. The purchase of the Trustpower Metering assets by TLC:

- The TLC board asked WESCT for its feedback and consent for this investment given its materiality, even though approval was not technically required.
- With a formal request received, the trustees believed it was prudent to obtain outside professional advice and engaged Deloitte to peer review the proposal and business case.

2. Independent report for the Ownership Review Process:

- 2020 sees the standard six-yearly poll regarding the current trust ownership structure take place.
- Information provided to the beneficiary customers includes a report completed by an independent party.
- Utility Consultants Ltd completed the independent report.

WESCT then had a 2019/20 net operating result (before depreciation and tax) of a \$29,000 deficit, which was a \$163,000 deficit in 2018/19. After considering tax and imputation credits, WESCT had a net profit of \$22,600.

### **The Lines Company Financial Performance**

As reported last year, several items impacted TLC's financial performance - the partial cost of the transitional discount with the new time-of-use pricing regime; impairment of the investment in Embrium Holdings Ltd; and, completing an extraordinary depreciation adjustment on the asset register. The overall result was the previously mentioned loss of \$1,593,000.

The Trust also reported last year that both the Trust and the TLC Board saw the result being due to several "one-off" events and that this was not the start of a new trend.

Therefore, WESCT is delighted that TLC has reported a 2019/20 post-tax profit of \$6,729,000. The profit arises from a combination of no adverse one-off events, normal operations of the core business, and importantly good returns contributed from the TLC subsidiary Company FCL Metering Ltd ("FCLM"), particularly from the Trustpower asset acquisition.

These results were after the payment of the \$5,600,000 discount to the WESCT beneficiary customers.

The discount was as per the budget in the 2019 SCI, and the profit after tax was \$1,680,000 (or 33%) greater than forecast.

In previous years WESCT has grown its investment in TLC by purchasing more shares. When you own 100% of the shares, this option is no longer available. Therefore, WESCT relies on the actions and outcomes of TLC for further growth of its asset base and possible income streams.

As previously alluded to during 2019/20 FLCM purchased metering assets from Trustpower. The acquisition has provided FLCM with immediate scale benefits, opportunities to use some technology from the Embrium business, and more significant opportunities for growth of this business.

In the meantime, this acquisition has provided and is forecast to continue to provide, an incremental income stream for the TLC group. Two big benefits of this income are that it is generated from outside the TLC network area and it does not count as part of our regulated income that the Commerce Commission rules on. And ultimately this will drive increased net shareholder value, whether through equity or discounts.

### **A New Regulatory Environment – DPP3**

The Commerce Commission updates the operational rules for companies such as TLC every five years. Termed DPP (default price path), we are now in the third five-year period – hence the term “DPP3”. The current period started 1<sup>st</sup> April 2020 and continues to 31<sup>st</sup> March 2025.

In summary, due to lower global finance (interest) costs, the Commerce Commission has ruled that companies such as TLC must reduce their net allowable revenue from network distribution charges. For TLC, this means a reduction in income from \$46.0 million to \$42.1 million across the whole network. Approximately \$2.4 million of this reduction is forecast to occur in the WESCT area.

A reduction in income, as outlined above, means an approximate 8% reduction in pricing for all customers - as long as power usage remains the same. The change in pricing came into effect on 1st April 2020.

As an ordinary customer, this is good news. As an owner of the business, this does mean the profit forecast by the Company is affected, which will have implications on the discount paid to beneficiary customers.

There are other matters addressed in the DPP3 rules – the allowable interruptions measured under the SAIDI and SAIFI parameters have also reduced.

So, with less revenue allowed, the Company must be smarter and better. Great news as a customer - but there is increased pressure on the bottom line for the owners of the business.

## **The 2020 Statement of Corporate Intent**

The Statement of Corporate Intent (SCI) is the key planning document presented by the TLC Board to WESCT on an annual basis. It has a greater emphasis on the immediate financial year but includes yearly budgets for the next five years. The 2020 SCI needed to consider the new requirements announced under DPP3.

The Board prepare the SCI in the context of the “Letter of Expectation” that WESCT prepares and sends to them. The Letter of Expectation is a new initiative that the current trustees started in 2019 to provide the Board with clear guidance.

The report prepared for the annual meeting of beneficiaries includes the full SCI report.

In summary, the key aspects that WESCT asked the Board to consider in preparation of the 2020 SCI:

1. Continual improvement of network performance with a future proofing and prudent risk management focus;
2. Board integrity and operation within all supply regulations and all laws;
3. Consideration of local social initiatives, regional development, energy hardship, and being a large local employer;
4. Being resourceful, innovative and cost-efficient while making reliability of supply a top priority;
5. Existing investments outside the core distribution network to contribute to the profitability of the Company. Any new investments should clearly enhance the long-term viability of the group.
6. Prudent management of debt levels and interest rate risk; and
7. Maintain a safe and healthy workplace environment for both staff and the general public with active promotion of a fully integrated health, safety and well-being culture through the organisation.

Key forecast results of the 2020 SCI are:

1. \$5,157,000 profit after tax and after payment of WESCT beneficiary customer discounts.
2. WESCT beneficiary customer discounts of \$3,800,000.
3. \$14.0M budgeted for asset renewals in the coming year – including additional automation function, some major sub-station work at Waitete and Whakamaru, and improved back up supply at Turangi.;
4. Continued focus on lifting profits generated outside the regulated revenue from the core TLC network.

5. Large focus on improving unplanned outages to improve the regulated SAIDI and SAIFI reliability measures.
6. Continued focus on internal efficiencies and costs.
7. Continued investment in staff training, safety, and well-being with 11 trainee/apprentice roles, a commitment to pay all staff the living wage, and a detailed health and safety roadmap for the organisation all in place.
8. Recognising and working to improve energy hardship/affordability issues with the establishment of a dedicated case management approach to assist vulnerable customers, the establishment of the customer advisory panel, continued support of the Maru Energy Trust and sponsorship of a number local community organisations/activities.

## **The Future**

Between writing this report and the Annual Meeting of Beneficiaries, the WESCT beneficiary customers will have been voting for the three A trustee positions and the ownership review. The results are likely to be known at the Annual Meeting of Beneficiaries. The results will significantly influence the work plan ahead for the next year.

I thank the five candidates who stood for the three A trustee positions and congratulations to the three successful candidates.

I do hope that the result of the ownership review is an endorsement of the current ownership structure. Previous kaumatua of our district had great foresight to put the ownership of this vital infrastructure in the hands of the community. Whilst sometimes it may be hard to see the benefit of this (especially when you pay the TLC invoice monthly), I am confident the community owning TLC is the correct way forward.

COVID-19 is a new term we all now know so well – even if we don't understand its full ramifications. TLC's response to this challenge has been exemplary. TLC had great systems in place to see the continued supply of power to our homes and businesses; there was continued employment of all staff; and, with full WESCT support, TLC was also able to provide nearly \$1m of financial relief to residential customers during that unusual April 2020 Level 4 lockdown period.

We do not know what the full impacts of COVID-19 will be on our community and businesses or our investment in TLC. However, I believe the Company is as well placed as any to meet these as yet unknown challenges.

## **Acknowledgements**

Firstly, I would like to acknowledge you, the WESCT beneficiary customers. If you are reading this report, or at the annual meeting, you are engaged and interested in the future



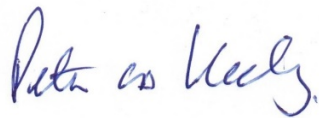
of what WESCT represents in our community.

I want to thank all staff at TLC. They have met significant challenges in recent years – and the last 12 months or so has provided some new ones! Their hard work and dedication keeps us warm, in light, and connected to others.

Thank you to the senior management team and the Board. They willingly share information with the trustees and strive to lead the Company to be always better.

Thank you also, my fellow trustees and our very able Trust secretary Celina Yapp. The team complete a lot of work behind the scenes for an organisation in which they all believe.

Tēnei te mihi ki a koutou katoa.

A handwritten signature in blue ink that reads "Peter Keeling".

Peter Keeling

**WESCT Chair**

## Strategic Direction

### **Vision**

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

### **Mission**

- To oversee 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 within the District 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.
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 effective succession planning for Trustees and Directors.
6. To develop effective communications with our stakeholders.

## Statement of Service Performance

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2020 was as follows: (All dollar amounts are in \$'000)

	Actual	Target
<b>1. Return on average assets before network discounts granted</b>	4.2%	4.2%
<b>2. Return on average equity</b>		
Average equity (including subordinated debentures)	145,280	152,156
Return on equity before customer discounts	7.4%	6.0%
<b>3. Borrowings (including subordinated debentures)</b>	93,499	76,964
<b>4. Equity (including subordinated debentures) to assets ratio</b>	49%	>40%
<b>5. Dividends</b>	200	200
<b>6. Discount granted</b>	5,600	5,600
<b>7. Reliability</b>		
The performance target relating to SAIDI and SAIFI reliability in the Statement of Corporate Intent was for TLC to not breach the reliability limits as set out in the Default Price Path Annual Compliance Statement. The draft Price Path Annual Compliance Statement for the year to 31 March 2020 shows that TLC has exceeded the SAIDI limits. As a result TLC has breached the reliability limits.	SAIDI 271	234
	SAIFI 3.00	3.47
<b>8. Regulated revenues</b>		
To have a Notional Revenue to Allowable Notional Revenue ratio as set out in the Default Price Path Annual Compliance Statement of between 80% and 100%.	>80%	>80%
<b>9. Funding of community projects</b>		
To expend up to \$69,000 in supporting community projects.	69	<65
Contributions to Maru Energy Trust.	100	100
<b>10. Safety</b>		
Notifiable injuries that resulted in serious harm	Nil	Nil
Lost time injury frequency rate (LTIFR)	0.39	20% reduction
Improvement in health and safety culture	61.59	GSI increase
<b>11. People</b>		
Actively promote local employment	118	-