



# 2021 Annual Report to WESCT Customers

(1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021)



WESCT Trustees 31st March 2021

*To grow and enhance our community asset for the sustainable benefit of WESCT customers 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>	Baker Tilly Staples Rodway Corner London & Victoria Streets PO Box 9159 Hamilton 3240
<b>Accounting Period:</b>	Year Ending 31st March 2021
<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 (“WESCT”), I am privileged to present this report on behalf of WESCT for the year ending the 31st of March 2021 (FY21).

While this report relates to the FY21 period, I would like to acknowledge the outgoing Chair of The Lines Company (“TLC”), Mark Darrow and congratulate Bella Takiari-Brame, who the directors have just elected as the new Chair of the Board.

Mark has been a director since June 2015 and the Chair since August 2016. Over this period, with an able team of directors and TLC staff, he has been at the forefront of a period of very positive change with the TLC operation, and we sincerely thank him for that.

Bella, who hails from Mahoenui, has been on the Board since late December 2019, and we look forward to working with her in her new Chair role.

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

The core purpose of WESCT is to hold 11,846,808 shares in The Lines Company on behalf of WESCT customers. As a result of the work of previous trustees, this represents 100% of the Company.

Through this ownership, WESCT customers received a discount from TLC of \$3,800,000 during FY21. Including GST, this equated to \$4,370,000.

### **Trustee Update**

The trustees at the end of FY21 were:

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

This group has been in place for the last 12 months, with the last A trustee election results received on the day of the 2020 annual meeting.

In this financial year, there were 26 meetings - 10 of which were scheduled monthly trustee meetings. Individual trustees attended between 15 and 24 meetings each.

### **Trust Functions**

During FY21, the Trust continued to perform the key functions on behalf of its

beneficiary customers:

1. Appointing directors of TLC;
2. Director review meetings;
3. The discussion and acceptance of the 2021 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. Conducting the 2020 A trustee election, the six-yearly ownership review, and the completion of the WESCT customer poll to sell the then-current TLC hydro generation assets.

The A trustee election saw Erin Gray and William Oliver re-elected to their positions, and the previous Appointed Trustee, Janette Osborne, joined them. A trustees are required to appoint a trustee to WESCT, someone who holds skills that the trustees wish to have on the Trust; we were pleased to have Carolyn Christian from Ōtorohanga join the Trust.

The Trust does not have the authority to get involved in the day-to-day management, operations, or company governance. Instead, the Trust exercises its influence by recruiting the Company directors and through the statement of corporate intent processes, including a letter of expectation from the Trust.

That said, the TLC Chair and CEO complete in-person quarterly reports to the Trust and the trustees complete formal discussions with individual Directors on an annual basis.

## **Director Update**

In the middle of FY21, the Board operated with five directors. Unfortunately, newly appointed Simon Fleischer then resigned in December to take up an employment offer in Canberra.

Following discussions between the Trust and the Board, it was agreed the Board would operate for a short period with four directors. That was a very busy period for the Board, and we thank Mark Darrow, Andrew Johnson, Bella Takiari-Brame and Craig Richardson for the huge effort they put in over this time.

In recent years the trustees have implemented and managed the director recruitment process. With two directors sought, the trustees utilised the services of a skilled recruitment firm to manage and coordinate the process. The trustees were impressed with the calibre of the candidates that applied and interviewed.

This process resulted in the appointment of Doug Troon and Mike Underhill as directors in May 2021. Mike and Doug have extensive electricity and infrastructure experience at the senior management and governance level, and the trustees are very pleased to have them as part of our TLC Board.

### **WESCT 2020/21 Financial Performance**

The Trust's income was \$330,000, which was \$45,000 higher than the previous year due to the net result of a higher dividend payment and lower interest income from the BNZ.

The operational expenditure was \$389,000, which was \$75,000 higher than FY20. The key areas of increased expenditure were:

1. Recruitment advertising (+\$14,000):

- This item relates to the recruitment costs associated with appointing directors to TLC.
- The Trust incurred costs with the appointment of Simon Fleischer in June 2020.
- The Trust incurred other costs in late FY21 during the first part of the director recruitment process with Sheffield that ultimately led to the appointment of Doug Troon and Mike Underhill in May 2021.

2. Beneficiary communications (+\$14,000):

- An increased level of communication with the WESCT customers is a focus of this Trust.
- Included in the FY21 expenses is the development of the WESCT website, preparation and advertorial costs for newsletters, and notices associated with the A trustee election, ownership review and our annual meeting.

3. Election expenses (+\$80,000):

- This is a significant increase from the previous year. In round terms, 50% was attributable to contracting out the A trustee election and the ownership review poll to Electionz.
- The terms of the Trust Deed required WESCT to complete a poll of WESCT customers before TLC could sell the hydro assets based at Mangapēhi, Te Anga and Matawai. Conducting the poll with Electionz and the associated advertising costs accounted for the other 50% of the election expense increase.

4. Trustee fees (+\$22,000):

- The payment of trustee fees is a combination of a fixed fee, a variable fee based on meeting attendance, and mileage reimbursement (which are included in "Travelling Expenses" of the WESCT accounts).
- The FY21 trustee fees are higher due to FY20 involving almost six months without

one B trustee and a lift in the fixed fee portion of the trustee fee.

- In February 2020, Strategic HR reviewed trustee remuneration. As a result of their report stating “your current rates are among the lowest among the Energy Trusts”, there was a lift of the fixed fee portion of the trustee remuneration from \$750 to \$1,000 per month, an introduction of a 20% deputy chair premium, and the monthly chair payment went from \$1,500 to \$2,000 per month.
- Trustee fees were again reviewed in April 2021, and the Trust made no changes.

The trustees reduced expenditure in:

1. Consultancy (-\$52,000):

- FY20 included report costs for the purchase of the Trustpower metering assets and the ownership review, and the Trust did not require those areas of consultancy work in FY21.

2. Subscriptions (-\$5,000):

- ETNZ invoiced 50% of the ETNZ membership fee paid in FY21 before WESCT resigned from this organisation.

WESCT then had an FY21 net operating result (before depreciation and tax) of a \$59,000 deficit (compared to a \$29,000 deficit in FY20). However, after considering tax and imputation credits, WESCT had a net profit of \$25,000, similar to the FY20 result.

Other points of interest are:

1. The WESCT cash on hand was \$388,000 on the 31st of March 2021 compared to \$423,000 the year before. The Trust is “maintaining” cash levels.
2. Although there were pluses and minuses, the overall level of expenditure in FY21 was as budgeted by the Trust.

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

At last year’s meeting, we broadly discussed the new rules and impact of “DPP3” – the third five-year period of the Commerce Commission’s “default price path” system. As a result of DPP3, TLC expected revenue from all network customers to decrease by approximately \$3.9 million in FY21. \$2.4 million of the expected decrease related to customers in the WESCT area. This impact would obviously put pressure on the profitability of the TLC business.

Then, in case we forgot, we experienced our first ever COVID-19 Level 4 lockdown in April and May last year. The lockdown was a big unknown for both our community and the country. Unfortunately, there will be people and businesses that are hurting or have not survived the continuing COVID-19 impact.

WESCT is proud that TLC took an extremely prompt and novel approach to that first lockdown period. TLC did not charge any residential customers connected to the network for their April 2020 power usage. This was a first by any electricity retailer or lines company. The result was approximately a \$1.0 million contribution to our whole community during that challenging period.

With that background, as the shareholder on your behalf, WESCT is very pleased that TLC has reported an FY21 post-tax profit of \$6,050,000. These results were after the payment of the \$3,800,000 discount to the WESCT customers.

Other key highlights for TLC during the FY21 year that the Trust would like to acknowledge were:

- TLC continues to be a significant employer in our area. Total staff numbers are >160, with over 70% living on the network.
- There was a 56% reduction in the total number of workplace injuries which included drops in injuries that needed treatment and resulted in people needing time off work.
- The continued efforts of the TLC team to engage and be responsive to community needs has resulted in a 78% reduction in customer complaints.
- TLC has invested \$20 million in improving the network to help with the reliability of supply and continuing the journey of preparing the network for the community's future energy needs.
- The continued community support with \$172,000 invested in Maru Energy Trust, education scholarships, and sponsorships.
- TLC had national recognition for its work when they won the 2021 New Zealand Energy Excellence award in the Outcomes category. The award recognised TLC's contribution to assisting energy hardship with its customer care model, contributions to and involvement with the Maru Energy Trust, and COVID-19 assistance.
- The Influx business has continued to grow physically and financially. Influx has generated approximately \$14.8 million of revenue for TLC from customers outside the local communities that use the TLC network.

### **The 2021 Statement of Corporate Intent**

The Statement of Corporate Intent (SCI) is the key annual planning document presented by the TLC Board to WESCT. It emphasises the immediate financial year but includes yearly budgets for the next five years.

The Board prepare the SCI in the context of the "Letter of Expectation" that WESCT prepares and sends to them.

The report prepared for the annual meeting of WESCT customers includes the full 2021 SCI report.

In summary, the key aspects that WESCT asked the Board to consider in preparation of the 2021 SCI:

1. Maintain a safe and healthy work environment for both staff and the general public with active promotion of a fully integrated health, safety and well-being culture through the organisation.
2. Continual improvement of network performance with a future-proofing and prudent risk management focus;
3. Board integrity and operation within all supply regulations and all laws;
4. Consideration of local social initiatives, regional development, energy hardship, and being a large local employer;
5. Being resourceful, innovative and cost-efficient while making the reliability of supply a top priority;
6. 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; and
7. Prudent management of debt levels and interest rate risk.

Key forecast results of the 2021 SCI are:

1. A strong emphasis on looking after the TLC whānau, through maintaining a strong health and safety culture, and providing training opportunities and career pathway options for our local people.
2. \$7,477,000 profit after tax and after payment of the WESCT beneficiary customer discounts.
3. WESCT beneficiary customer discounts of \$4,000,000 (subject to customer usage).
4. Over \$27.0M for capital expenditure budget, including completing Waitete and Ātiamuri substation upgrades and upgrading existing 33kV lines near Ōtorohanga.
5. A continued focus on lifting profits generated outside the regulated revenue from the core TLC network.
6. Increasing the financial support to community initiatives to \$400,000 with increased emphasis on improving energy efficiency and hardship outcomes predominantly through the Maru Energy Trust.
7. A continued emphasis on reducing unplanned outages to achieve the lower regulated SAIDI and SAIFI reliability measures.



## **The Future**

TLC has nearly completed a period of significant change, and the pending transition to retailer billing is part of this change.

Running a great network business that is responsive to the needs of the communities in our area and meeting the national regulatory requirements should always be the core focus of TLC. We will continue to see TLC making a significant investment in the network infrastructure and developing this to meet future needs.

Recently the trustees and the directors held a workshop to discuss what the future may look like for TLC. The common view of the future can probably be summarised best by two keywords - Change and Challenge.

Maybe not exactly helpful. But I believe these words will describe what you will hear about in future reports. Why?

First, a lot will be due to external pressures – climate change, new regulations, and pressure from the likes of the central government to change our ownership model.

But, second, the trustees also have an aspirational vision that in the future, the discount that TLC applies through the community ownership model will meet the network charges on your power bill. In 2021 the proportion of the network charges discounted was almost 10%, and we all want this to grow significantly, even if it is a journey over 20 years plus.

The Influx investment and recent business growth show a path on how TLC can increase the discount. However, no investments are risk-free. The directors and TLC senior management team's challenge is to continue developing a plan that meets regulatory requirements and balances all stakeholder needs while building the ability to increase the discount. As we go forward, we are likely to see a change from the status quo occur.

## **Acknowledgements**

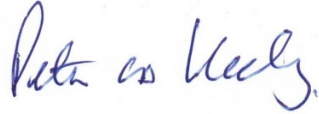
Firstly, I would like to acknowledge you, the WESCT beneficiary customers. If you are reading this report or at the annual meeting, you are engaged and interested in the future of what WESCT represents in our community.

I want to thank all the staff at TLC. The last 12-months have continued to provide them with new challenges. Across the network, we have had fewer interruptions to our power supply, and this has been at a lower cost to many of us – so thank you.

Thank you to the senior management team and the Board. Together you have taken us on a journey to get us to the positive position we are in now. We have a relatively new but very experienced TLC Board, and we are excited about the very impressive skills and new thoughts that, as a team, you bring to the table, and we look forward to the next part of the journey.

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

Tēnei te mihi ki a koutou katoa.

A handwritten signature in blue ink that reads "Peter Keeling". The signature is written in a cursive style.

Peter Keeling

**WESCT Chair**

## Strategic Direction

### **Mission**

To grow and enhance our community asset for the sustainable benefit of the WESCT customers now and in the future.

### **Vision**

In the future, WESCT customers will pay a net \$0 lines charge.

### **Strategy**

1. Through 100% ownership of TLC, deliver on the WESCT vision that in the future, WESCT customers will not pay a lines charge.
2. To communicate with WESCT customers and stakeholders.
3. To ensure the Trust owns a “a good TLC”.
4. To complete processes required for the Trust to operate effectively.

The Lines Company Limited (TLC) - Statement of Service Performance  
 Extracted by Waitomo Energy Services Customer Trust from page 52 of The Lines Company 2021  
 Annual Report

## Statement of Service Performance

	Achieved	Actual	Target
<b>1. Return on average assets</b> - before customer discounts	✓	3.9%	3.5%
- after customer discounts		3.0%	2.5%
<b>2. Return on average equity</b>			
Average equity (including subordinated debentures)	✓	\$146,597	\$144,971
Return on equity before customer discounts		6.2%	5.6%
Return on equity after customer discounts		4.1%	3.6%
<b>3. Borrowings (including subordinated debentures)</b>			
Target achieved when excluding the associated debt related to the acquisition of legacy assets in metering.	✓	\$92.0m	\$91.6m
Average Cost of Debt		3.23%	3.12%
<b>4. Equity (including subordinated debentures) to assets ratio</b>			
	✓	47.9%	>40%
<b>5. Dividends (\$'000)</b>			
	✓	\$250	\$250
<b>6. Discount granted (\$'000)</b>			
	✓	\$3,800	\$3,800
<b>7. Reliability</b>			
Unplanned SAIDI (minutes)	✓	155	181
Unplanned SAIFI (interruptions)	✓	2.55	3.27
<b>8. Funding of Community Projects</b>			
Invest in local sponsorships to align to our key focus areas (\$'000)	✓	\$72	\$65
Contributions to Maru Energy trust (\$'000)		\$100	\$100
Awareness of TLC's Sponsorships	✓	23%	23%
Insulated homes via Maru Energy Trust	✓	325	150
Working with vulnerable customers to reach positive outcomes	✓	156 customers	Report on progress
<b>9. Safety</b>			
Notifiable injuries that result in serious harm	✓	Nil	Nil
Reduction in critical risk categories	✓	36% reduction	10% reduction