



2022 Annual Report to WESCT Customers (1st April 2021 to 31st March 2022)



WESCT Trustees 31st March 2022

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

Trust Directory

Nature of Business:	Customer Electricity Trust
Business Address:	PO Box 209 Te Kūiti 3941
Secretariat Services:	C Yapp
Phone:	027 PH WESCT (027 74 93728)
Email:	info@wesct.org.nz
Website:	www.wesct.org.nz
Registered Office:	C/- The Lines Company Limited King Street East Te Kūiti
Accountant:	Bob Strawbridge McKenzie Strawbridge Maniapoto Street PO Box 37 Ōtorohanga 3940
Bankers:	Bank of New Zealand 354 Victoria Street Level 1 Hamilton Banking Centre Hamilton 3204
Auditors:	Baker Tilly Staples Rodway Corner London & Victoria Streets PO Box 9159 Hamilton 3240
Accounting Period:	Year Ending 31st March 2022
Inland Revenue Number:	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 2022 (FY22). I firstly want to acknowledge Peter Keeling, who was Chair for the period that this report covers and the commitment and hard work he gave during his four-year tenure with the Trust.

During this period, we farewelled the previous Board Chair, Mark Darrow, who retired partway through FY22 to pursue other opportunities. We also saw Ngāti Maniapoto and local Director, Bella Takiari-Brame, appointed as Board Chair for The Lines Company, who brings extensive experience in the utility and energy industry.

Waitomo Energy Services Customer Trust

The core purpose of WESCT is to hold 11,846,806 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.

Because of this ownership, WESCT customers received a discount from TLC of \$4,066,000 during FY22. For those, not GST registered and treating the lines cost as a business expense, you would also have received the GST on top of that sum.

Trustee Update

The Trustees at the end of FY22 were:

Peter Keeling (Chair and B Trustee), Cathy Prendergast (Deputy Chair and B Trustee), William Oliver (A Trustee), Janette Osborne (A Trustee), Erin Gray (A Trustee), and Carolyn Christian (Appointed Trustee).

Peter Keeling did not stand again for election as a B Trustee, and Guy Whitaker was duly nominated without contest by the Major Customers for a three-year term from the 1st of April 2022.

In FY22, the Trust had 20 ‘core’ meetings, which included 11 monthly Trustee meetings, Director interviews, Director reviews and SCI meetings. Individual Trustees each attended between 14 and 20 of these core meetings.

Trust Functions

During FY22, the Trust continued to perform the key functions on behalf of its beneficiary customers, which cover:

1. Appointing TLC Directors;
2. Director review meetings;
3. The discussion and acceptance of the 2022/23 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; and
5. The 2022 B Trustee election.

In addition to the above, the Trustees continued work: on a Trust Manual; creating standard operating procedures; reviewing the Trust Deed; communicating with beneficiaries and key stakeholders; and developing a long-term strategy so that Directors can be clear on what direction they should take on behalf of the Shareholder.

Director Update

The majority of FY22 saw the TLC Board operate with six Directors Mark Darrow, Bella Takiari-Brame, Andrew Johnson, Craig Richardson, Doug Troon and Mike Underhill.

We farewell and thank Mark Darrow and Doug Troon for their service and wish them well.

The Trustees continued to use an external recruitment agency that they found highly effective in providing a pool of high calibre Director candidates with the specific and relevant skills required for TLC. The Trust will continue to use this service in the future because of recent successful Director placements, which have also resulted in the appointments of Todd Spencer and Fraser Jonker in FY23.

WESCT 2021/22 Financial Performance

The Trust's income was \$378,007, which was \$48,316 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 \$327,459, which was \$61,312 lower than FY21. The key areas of increased expenditure were:

1. Recruitment advertising (+\$22,254):
 - This item relates to the recruitment costs associated with appointing Directors to TLC.
2. Beneficiary communications (+\$7,728):

- An increased level of communication with the WESCT customers is a focus of this Trust.
- There was a full year of newsletters and publications in the local newspapers to raise awareness of WESCT. In addition, the Trust also released a video explaining the relationship between WESCT and TLC and how we both interact with the energy retailer.

3. Trustee fees (+\$4,147):

- The payment of Trustee fees is a combination of a fixed fee, a variable fee based on meeting attendance, and mileage reimbursement (included in “Travelling Expenses” of the WESCT accounts).
- The Trustees reviewed these fees in April 2021 and made no changes for FY22.

The key areas of decreased expenditure are:

1. Legal fees. (-\$4,284):

- We expect both Legal and Consultancy Fees to increase in FY23 as the Trust completes work on the Trust Deed and work to utilise the imputation credits in the balance sheet.

2. Election expenses (-\$78,104):

- There is a significant decrease from the previous year when there was an Ownership Review Poll, an A Trustee election, and a Poll on the sale of generation assets.
- Part of FY22 also included costs associated with the Ownership Review Poll and the A Trustee election, as well as the B Trustee election.

3. Subscriptions (-\$2,981):

- WESCT was not a member of Energy Trusts of New Zealand (ETNZ) for FY22.
- The expenditure for FY22 was a subscription to Energy News which provides an online news and information service for the NZ energy sector, including a comprehensive industry participant and energy asset database.

WESCT records an FY22 net operating result (before depreciation and tax) of a \$50,548 surplus (compared to a \$59,080 deficit in FY21). However, after considering tax and imputation credits, WESCT had a net profit of \$114,263.

Other points of interest are:

1. The WESCT cash on hand was \$412,640 on the 31st of March 2022 compared to \$388,700 the year before. The Trust is “maintaining” cash levels.

2. The overall level of expenditure in FY22 was within the budgeted amount set by the Trust.

The Lines Company Financial Performance

Significant changes within TLC over this reporting period were also relevant for the communities that TLC serves and our WESCT Customers.

Firstly, we saw the change to one bill. The Trustees acknowledge the tremendous amount of work by the Company to make this happen, from planning and testing with the many retailers attached to our network to the customer engagement and communication undertaken over a significant time. It all led to a seamless change for customers on the 1st of October 2021, which is a testament to the hard work the Company and the Board applied to this project.

In past annual meetings of WESCT Customers, we broadly discussed the new rules and impact of the Default Price Path system, or “DPP3”, which is set by the Commerce Commission. Whilst this matter is operational, and outside the scope of the duties of the Trust, WESCT Customers need to be aware of how this new regulation and compliance will affect our financial performance in our network investment moving forward. As a result of DPP3, TLC expected revenue from all network customers to decrease compared to the years before FY20. To maintain our investment level or grow WESCT profits, we will need to look outside our network for opportunities.

The COVID-19 Level 4 lockdowns and traffic light settings continued to impact TLC operations in this reporting period. Despite this, the services were maintained with additional health and safety measures taken by the Company to protect the team and customers. This saw non-critical works reprioritised to ensure the staff were safe and the Company could maintain ongoing service for outages and other critical works.

The Trust is also proud of TLC’s continued efforts to support its communities in times of need. For example, the generous donations by the Company to local Foodbanks, and the foresight to change the timing of when to pay the TLC discount to support customer payments, are just a couple of the ways that our Company genuinely ensures that our community and customers are front-mind in whatever they do.

With that background, as the Shareholder on your behalf, the Trustees are very pleased that TLC has reported an FY22 post-tax profit of \$7,478,000 vs FY21 of \$6,050,000. These results were after the payment of the \$4,066,000 discount to the WESCT customers vs \$3,800,000 last year.

Other key highlights for TLC during the FY22 year that the Trustees 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.

- TLC has initiatives in schools to attract, grow and develop local talent into the business, for example, the four new trainee line mechanics and one new apprentice electrician. Wiremu Te Tawhero won the prestigious distribution trainee of the year.
- There was a 61% reduction in critical risk incidents.
- As measured by SAIDI and SAIFI, the performance and reliability of the network are well inside Commerce Commission regulatory limits. Essentially power outage frequency and length of time.
- The continued efforts of the TLC team to engage and be responsive to community needs have resulted in a 78% reduction in customer complaints.
- TLC has invested \$16 million in improving the network to help supply reliability and continue preparing the network for the community's future energy needs.
- The continued community support with \$400,000 invested in the Maru Energy Trust, Foodbanks, education scholarships, and sponsorships. A year in which our community with the COVID-19 challenge needed support from our fellow corporate citizens.
- The Influx business has continued to grow physically and financially. Influx has 4,457 new connections or ICPs, and 80% of its \$19M revenue was from customers outside the local communities that use the TLC network.
- TLC has moved to one bill, and as customers, we now have one account rather than two for our electricity and lines charges. As a result, TLC will achieve some administrative savings.

The 2022/23 Statement of Corporate Intent is where we look to the future.

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

The Trust spends time preparing a Letter of Expectation, which sets out the key considerations that the Company will need to encompass within this, whereby the Board prepare the SCI with this in mind.

The report prepared for the annual meeting of WESCT customers includes the full 2022/23 SCI document.

In summary, the key aspects that WESCT asked the Board to consider for the 2022/23 SCI were:

1. Maintain a safe and healthy work environment for both staff and the public with active promotion of a fully integrated health, safety, and well-being culture throughout the organisation;
2. A strong focus on building and maintaining assets for the long-term and future-proofing the network to meet changing technology needs. In addition, the continuation of risk management as a top priority and continually seeking to improve network performance;

3. The Board acting with integrity and compliance with all laws, regulations and quality of (electricity) supply requirements and action Government targets regarding sustainability and climate change;
4. Consideration of local social initiatives, regional development, energy hardship and affordability, and promoting energy education, specifically through the Maru Energy Trust;
5. As a large employer, support education and training opportunities that assist local staff in achieving internal promotions, specifically at a management level. Promote equal opportunity and diversity across the TLC team and support the TLC initiative toward providing a living wage;
6. Being collaborative, resourceful, innovative and cost-efficient while making the reliability of supply a top priority;
7. Existing investments outside the core distribution network should contribute to the Company's profitability. Any new investments should clearly enhance the Company's long-term viability and its future ability to increase discounts to WESCT Customers;
8. Prudent management of debt levels and interest rate risk; and
9. Within the above framework, WESCT wants to lower the net electricity cost to WESCT Customers on a sustainable basis while maintaining a strong balance sheet.

Key forecast results of the 2022/23 SCI are:

1. A strong emphasis on looking after the TLC whānau by maintaining a strong health and safety culture and providing training opportunities and career pathway options for our local people.
2. \$8,313,000 profit after tax and after payment of the WESCT Customer discounts.
3. WESCT Customer discounts of \$4,200,000.
4. Over \$32M for capital expenditure budget includes Influx with metering and software, and capital works with industrial customers on network and decarbonisation. TLC will play a massive part as our local economy transforms into a low-carbon economy. As we adapt from a hydrocarbon energy economy toward renewable energy, electricity plays a major role. This will mean considerable investment in electricity infrastructure, efficiency, and technology. The Trust is excited about the benefit Influx may bring in this evolution.
5. A continued focus on lifting profits generated from outside the regulated revenue of the core TLC network.
6. Maintaining the \$400,000 financial support to community initiatives and the 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

We see that the future of our lines network business is summarised well within two keywords – ‘Change and Challenge’. You will likely read about these two themes in future reports. The change in relation to public perception, climate change, new regulations and compliance from the central Government, coupled with the challenge of ensuring the Trust ownership model, is still seen as the most sensible and logical structure moving forward, especially within the political arena.

As always for our Company, running a great network business that is responsive to the needs of the communities and its customers should always be the core focus. The team have worked hard in this period, and whilst they would have loved some time to relax and take the pressure off, many projects still need attention. These include network infrastructure and development and continuing to be proactive within the regulatory space to ensure the Company’s financial efficiency. We are extremely grateful to have such a skilled and experienced Board and Senior Leadership Team continuing to work on behalf of our WESCT customers

As mentioned last year, the Trustees as the 100% shareholder of TLC, have an aspirational vision that in the future, the discount and value that TLC applies through the community ownership model will meet the network charges on WESCT beneficiary customers’ power bills.

Acknowledgements

Most importantly, we need to acknowledge the WESCT beneficiary customers. If you have read this report or are at the annual meeting, we thank you for taking an interest in our community’s future and the part that WESCT and TLC play.

I want to thank all of the TLC staff. Whether you were out working on the network or providing customer-facing help, working in operations, finance, regulatory, IT or one of the other numerous roles that contribute to keeping our communities connected, we appreciate what you do, including getting the power back on during a storm when we are all tucked up in our warm homes.

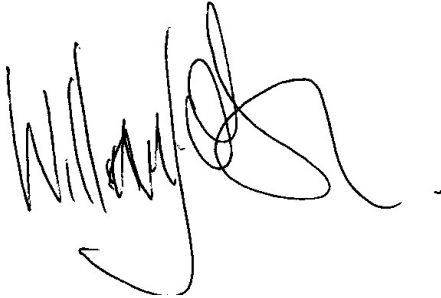
Thank you to the Senior Leadership Team and the Board. Your time and efforts during this period were phenomenal, and despite all the odds thrown at you, you were able to provide a positive financial result for our WESCT customers.

Whilst this isn’t within our current period, the Trustees would like to acknowledge Sean Horgan, TLC Chief Executive, for the last five years of service. Sean played an integral role in some major changes that the Company has been through and provided a comforting and steady hand for the Company during some of our most turbulent times. We also farewell Audrey Scheurich, TLC GM Finance, who was integral in the changes that Sean led. We thank them for their service to our Company and community during their tenure.

Thank you also, my fellow Trustees and Celina Yapp, who provides the Trust’s secretarial services. The team completes a lot of work behind the scenes for something we are all very

passionate about - the prosperity of our community and the part that affordable energy plays.

Tēnei te mihi ki a koutou katoa.

A handwritten signature in black ink, appearing to read 'William Oliver', with a large, stylized flourish extending to the right.

William Oliver
WESCT Chair

The Lines Company Limited (TLC) - Statement of Service Performance

Extracted by Waitomo Energy Services Customer Trust from page 44 of The Lines Company 2022 Annual Report

Statement of Service Performance

Key Performance Indicator	Achieved	Actual	Target	Comments
Custodianship				
Return on average assets before customer discount	✗	3.9%	4.2%	The revaluation adjustment on the network has had an impact on the return calculations that were not budgeted for.
Excluding revaluation from average assets		4.0%		
Return on average equity before customer discount	✗	6.4%	6.9%	The revaluation adjustment on the network has had an impact on the return calculations that were not budgeted for.
Excluding revaluation from average equity		6.7%		
Equity Ratio	✓	50.4%	No less than 40%	
TLC Discount Policy	✓	\$4.1m	\$4.0m	
TLC Dividend Policy	✓	\$300k	\$250k	
Group Debt (including subordinated debentures)	✓	\$82.1m	\$92.0m	
Average Cost of Debt	✗	3.13%	2.95%	Interest rates have increased over course of year in New Zealand due to inflationary pressures which did not form part of the budget in FY22.
Community				
Local initiatives investment	✓	\$400k	\$400k	
Customer Satisfaction	✗	59%	70%	Change to retailer billing impacted customer satisfaction
Maru Energy Trust support homes across network	✓	516	500 homes	
Performance				
Reliability – Unplanned SAIDI	✗	160	141 minutes (Regulatory limit 181 minutes)	Weather events such as cyclone Dovi has contributed to unplanned SAIDI and SAIFI budget being exceeded. Note that the unplanned regulatory limits were not breached.
Reliability – Unplanned SAIFI	✗	2.8	2.6 Interruptions (Regulatory limit 3.3 interruptions)	
People				
No serious harm injuries	✓	Nil	Nil	
Reduce the number of Critical Risk Incidents	✓	61%	10%	
Sustainability				
Environmental – reduce carbon footprint	✗	NA	10%	The reduction has not been measured although the AMP has been updated to include measures associated with reducing carbon emissions.
Cultural – Introduce companywide Tikanga Māori and te reo Māori program for all staff	✗	NA	100%	Workstream established FY22.