

# KING COUNTRY ELECTRIC POWER TRUST



## ANNUAL REPORT 2005

The Trustees of the King Country Electric Power Trust have pleasure in presenting the twelfth Annual Report to consumer beneficiaries.

### ADMINISTRATION.

The administration of the Trust remains unchanged. Mr B.J.Gurney, of Omori, continues as Chairman, and Mr I.C.W.Dougherty, of Taumarunui, continues as Secretary. Trustee meetings were held, usually monthly, in Taumarunui, with one at Ohakune. Two meetings have been held in Turangi since the end of this financial year. All meetings were well attended, with a quorum always present. The Trust has purchased a computer installation, enabling the records of the Trust to become accessible without needing to access the private computer of the secretary. All trustees have computer access, and the information flow within the Trust is now largely by e-mail.

The Trust website development continues, but is not finished. A website developer has been contracted, and has made a start. A difficulty is occurring in transferring older records from the secretary's private computer to the Trust's computer, but this difficulty is being overcome. The Trust intends that its website will be straightforward to use, yet contain all the information that consumers could expect, including annual reports, annual accounts, trustee elections, history, contact information, and links to other industry sites.

### TRUSTEES

Trustees during the year were: -

Mr B.J.Gurney	(Omori)	Attended 11 Trust meetings
Mr N.Sanders	(Taumarunui)	“ 12 “ “
Mr M.F.Turner	(Owhango)	“ 11 “ “
Mr G.S.Cosford	(Taumarunui)	“ 11 “ “
Mr D.N.Sanders	(Ohakune)	“ 10 “ “

Trustee fees were reviewed in November 2004, following an industry survey, and increased to \$5000 per year for each trustee. The workload of trustees is constantly increasing, created mostly by the need to maintain knowledge of the ever-changing electricity industry. Attendance time at industry conferences has nearly trebled over the past two years.

### FINANCIAL RESULTS.

The Trust reports an operating surplus of \$337,577 for the year to 31<sup>st</sup> March 2005

#### **Dividends.**

The Trust received dividends of \$375,000 from King Country Energy Ltd. A dividend of \$32,908 was received from The Lines Co Ltd, but was included in the income of the previous year.

**Investment income.** Trustees continued their policy of placing all funds, other than a reserve for working expenses, into term deposits with its bankers. Deposits of \$823,460 were held at Balance Date. Interest of \$37,966 from investments was received during the year.

**Trust costs**

Trust costs, at \$75,389, were above the budget of \$67,160.

Trustee fees, after the increase as explained above, were \$1,500 over budget. The cost of advertising and running the annual general meeting were \$730 over budget, largely through the costs of public notices in three newspapers. The Trust also carried the cost of preparation of publicity releases in "Newsline", the periodical publication of The Lines Co Ltd., and the \$2400 cost of meetings to conduct the governance of The Lines Co Ltd had not been budgeted for.

To comply with Financial Reporting Standards, the Trust's 25% share of the net profit of The Lines Company Ltd has been included in income. The share, \$361,717 is a matter of record only and does not provide funding for the Trust. But the profit inclusion, plus the inclusion of an increase in the value of assets, does serve to increase the Trust's share of the net worth of the company, now recorded at \$20,900,585.

**Shareholding:** The Trust's shareholding investments remain unchanged at 25% of The Lines Company Ltd , and 10% of King Country Energy Ltd.

## **COMPANY PERFORMANCE**

**King Country Energy Ltd** during the year paid dividends to the Trust of \$150,000 and \$175,000 equating to 18 cents after tax per share. At 31<sup>st</sup> March 2005, the unlisted market value was \$3.40 per share, a substantial rise on the previous balance date value of \$2.65. The company's share value peaked at \$3.65 in September 2004, then fell steadily in following months but received renewed interest in February and March 2005, rising up to \$3.40. A steady rise in market price has occurred since Balance Date, and at the time of preparation of this report, the market price is \$4.00. The company has stated a policy of paying out 60% of its after-tax profits to shareholders, and has declared a dividend of 12cents after tax per share, payable in August.

Its net profit, after tax, for the year was \$3.86M, down on the \$4.5M achieved for the previous year. The company faces considerable competition from other retailers, but has retained the support of the majority of its customers. It continues its activity in the generation field. The upgrade of its joint venture generating station at Mangahao in Horowhenua has been completed, and is now fully operational. Renewals of resource consents have been granted for the generating stations at Wairere and Mokauiti. The company recently announced its plans to construct a further hydro-station on the Mokau River, and a resource application has been notified. Successful completion of this project would raise the company's generating capacity to 80% of its consumer demand, from the 60% provided by its existing generating plants.

The company continued its policy of fully separating retail charges from lines charges on its invoices, and remains the only retailer in the country to do so.

**The Lines Co Ltd** continued its policy of paying a small dividend of 1 cent per share to its two trust shareholders, with this Trust receiving \$32,908 in June 2005. As this dividend was not declared until 31<sup>st</sup> May, it has not been included in the income of the Trust for the year to 31<sup>st</sup> March 2005. The shareholding trusts require that the company return approximately 60% of its revenue surplus directly to consumers, by way of twice-yearly discounts. The Commerce Commission has expressed concern at this method of divesting surplus to consumers.

The company has advised its intention of directly billing consumers, replacing the present method of charging for its services through retailers. Consumers have yet to be advised the details of direct billing.

The Government has imposed profit and reliability controls on all electricity reticulation companies. The Lines Co Ltd is compelled to keep its profits at the rate of inflation minus 2%, in effect a decline in real profit. Although this may seem good news for consumers, the longer term disadvantages will restrict the company in capital development, and in enhancing its reliability targets. The Government has also legislated to require all lines companies to provide a low fixed cost tariff to all consumers. The tariff is advantageous to consumers whose annual electricity use is less than 8,000 KWH (Units).

The Waitomo Energy Services Customer Trust is the other major shareholder in The Lines Co Ltd with 75% of the shareholding, and holds 8% of the shares in King Country Energy Ltd. The relationship with its trustees remains amicable, and close cooperation in governance of the shareholdings is achieved. Four joint meetings of all trustees took place to reach a consensus on issues relating to the companies.

The two Trusts, in their capacity as owners of the company, have in recent years become much more involved in the selection of the Company's directors and in monitoring their performance. This function is carried out by an Electoral College which comprises two representatives from each of the two shareholding Trusts. Each director has been subject to a review of performance and over the past two years applications have been sought from the wider community for appointment to the board of directors. Last year there was one vacancy created by the expiry of a director's term on the Board. The retiring director did not seek re-appointment. The vacancy was filled by the appointment of Mr John Lindsay.

In the current year two directors terms of appointment have expired and once again the Trusts have advertised the positions in the media and the process of making these appointments is still in process.

The Trusts believe that one of their most important functions is monitoring the performance of the board of directors individually and in exercising its right of making appointments to the Board.

## **AUDITOR**

The annual general meeting of consumers, held on 26<sup>th</sup> July last year, appointed Sewell and Wilson, of Ohakune and Wanganui, as auditors. The appointment of auditor is subject to resolution at each annual general meeting.

## **ENERGY TRUSTS OF NEW ZEALAND (ETNZ).**

The Trust continues its active involvement with the Energy Trusts of New Zealand. The Trust was represented by a number of trustees at all national meetings. ETNZ has continued its activity in formulating and presenting submissions on electricity issues to various commissions. The major political parties now recognise its importance by providing Ministers and shadow-Ministers to address the ETNZ conferences. ETNZ has engaged a consultant to analyse the many proposals being issued on the electricity industry, and works very closely with the Energy Networks Association to provide unified responses. Energy conservation is now an aim of ETNZ. This Trust fully supports this aim, and intends to participate in a local presentation of a nationwide project.

## **COMMUNICATION WITH CONSUMER BENEFICIARIES.**

Last year's Annual General Meeting received good support, but is not a major channel of communication with consumers. The Lines Co publication, "**Newsline**", has carried a feature on the shareholding trusts, and this avenue of communication remains available for future use. Press releases are periodically published by the local newspapers. The introduction of the Trust's own website will provide a further communication link, and give consumers ready access to other industry related sites.

The long-awaited **Guidelines for Beneficiary Access to Information**, have not yet reached national finality. This Trust has prepared its Guidelines in accord with the agreement reached between ETNZ and the Minister, but cannot adopt them until an appointment is made at national level of a person, or authority, who will review decisions made by Trustees, which are disputed by a consumer. The changes required in the Trust Deed to empower the Guidelines have been incorporated with other changes to the Trust Deed now being considered.

The Trust continues to receive a small number of complaints from consumers about line matters, mostly on pricing and reliability. A particular area of concern to holiday home owners are the higher fixed charges imposed by The Lines Co on holiday homes. All complaints were acknowledged and passed on to The Lines Co for comment. Trustees regard the consideration of consumer complaints as an important part of their responsibility to consumers. But it is important for consumers to realise that the Trust's role with The Lines Co, determined by the Trust Deed, and by company law, is one of governance, not management. Trustees can make recommendations to, and ask for explanations from the company, but cannot issue direct instructions. The Trust's control over the company lies in the broad areas of appointment of directors, and in the approval of the company's annual Statement of Corporate Intent. A copy of the Statement for the year to 31<sup>st</sup> March 2005 is attached to this report.

On balance, it has been a constructive year for trustees, with a number of projects now approaching finality, and several exciting new developments now being considered. I appreciate the efforts of our trustees who have worked diligently, and to our secretary who faced an increased workload. With the possible changes we are introducing, we will take the Trust forward.

Signed .....Chairman, on behalf of trustees. 19<sup>th</sup> July 2005

(B.J.Gurney)