

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2007

The trustees of the King Country Electric Power Trust have pleasure in presenting the thirteenth Annual Report to its consumer beneficiaries.

ADMINISTRATION.

The year ending March 2007 has been the most challenging in the history of the trust. This has impacted hugely on the work load for trustees as is reflected in meeting attendances and trust expenses. This report will deal with each of the activities under their respective sections.

Meeting attendances from the minutes record the demand on trustee time.

Mr. B Gurney	Omori	31 meetings
Mr. G Cosford	Taumarunui	26 “
Mr. N Sanders	“	25 “
Mr. D Sanders	Ohakune	12 “
Mr. M Turner	Owhango	26 “

In addition trustees attended four public information meetings and two industry conferences.

During the year Mr. D Sanders had leave of absence to recuperate from major surgery and has returned to trustee duties within the limitations of a full time busy career. Later in the period Mr. N Sanders began to have bouts of ill health which saw him hospitalized on several occasions.

Mr. M Turner at the very end of the year moved to Wanganui .This has not hindered him from discharging fully his trustee responsibilities.

The trust Secretary, Mr. I Dougherty, did not renew his contract at the end of 2006 and trustees appointed Mrs. Tessa Stewart as his replacement. Trustees sincerely thank Ian for his dedication and untiring efforts to see the trust function in a professional way over the 7 years of his service.

In spite of the disruptions, the Trust has, we believe, managed its affairs in an effective and efficient manner, often employing telephone conferencing to overcome the need to have frequent meetings, and link in members or consultants distant from the district.

The trustees have shown remarkable commitment to discharge their community responsibilities.

INDEPENDENT CONSUMER COMPLAINTS RESOLUTION.

A resolution scheme for complaints was launched in conjunction with King Country Energy Ltd, the incumbent retailer, in December 2006. This provides a free, easily accessible process for local consumers to settle any complaint with the company.

Mr. Tim Scott, of Taumarunui, and Mr. Steve Benefield, of Turangi, were appointed adjudicators and are well qualified to resolve disputes.

At time of preparation of this report the trustees have not received any complaints to be resolved under the scheme.

The trust has made submissions to the Electricity Commission, as they consider the need for national regulation to resolve disputes within the industry.

ENCOURAGEMENT OF ENERGY EFFICIENCY.

A promotion to increase the use of compact fluorescent light bulbs (CFL) was developed in co operation with Energy Mad Ltd (supplier & promoter), the Electricity Commission (subsidy provider) and your trust providing the bulk of the funds and co ordination of the project in the region. It was an outstanding success with 22,000 bulbs being sold on promotion that, over the life of the CFL's, will save consumers \$2.26 million on their power costs.

OWNERSHIP OF COMPANIES.

In July 2006 the Waitomo Energy Services Consumer Trust (WESCT) signaled their intention to exit King Country Energy Ltd (KCE) ownership and offered their shares to this Trust (KCEPT) , and expressing an interest in the purchase of this Trust's 25% shareholding in The Lines Co Ltd (TLC).

Trustees were concerned regarding the legality that such transactions were within the trust deed and the protection of local consumers interests in their dealings with TLC. Legal advice was sought and a debate on commercial/consumer considerations commenced. In October 2006 WESCT, with their commercial advisor, made a presentation to trustees on the benefits and the procedure for such transactions. Legal advice received was that KCEPT must retain a significant holding in TLC, or dissolve the trust. To comply with the Electricity Industry Reform Act regulations this Trust could only hold a maximum of a 10% shareholding in a lines company, if it holds more than 10% of the shareholding of an electricity retailer.

WESCT was advised KCEPT would only consider selling 15% of TLC subject to completing, as required by the Trust Deed, an Ownership Review. As part of the settlement consideration, KCEPT would purchase WESCT's 8% of KCE, subject to agreed valuation of both shareholdings, and an understanding to protect local consumers. In January 2007 the Ownership review was commenced under the terms of trust deed by an independent consultant, PricewaterhouseCoopers.

On 22nd November Todd Energy made a 100% takeover offer of KCE at \$4.40 per share. On the 15th January the Todd offer failed, receiving only 1.7% acceptances. Todd Energy launched a second offer on 13th February for 50.1% of KCE at \$5.00 per share. Due to technical errors in the offer it was withdrawn and on the same terms a new offer was made on the 12th March. This offer closed on the 8th June, after the period of this report, but acceptances failed to reach the target, and the offer was withdrawn.

By mid-March trustees had considered the independent review and compiled their own report and recommendations and made them available for public consultation. To facilitate beneficiaries understanding of the complex issues, a mail out with explanations was made to all consumers and four public information meetings were held around the district. Consumers were invited to make written and verbal submissions. These communication steps were additional to the trust deed requirement to have the reports at local libraries and to advise they were available in local papers.

Submissions were heard on the 20th of April and on the 16th of May trustees adopted the review after considering the 154 written submissions, of which 90% supported the trustee's recommendation. Agreements with WESCT were settled on the 31st May to sell to it 15% of the shares in TLC and to purchase the 8% of KCE shares owned by it, concluding the outcome of the review.

FINANCIAL RESULTS.

DISTRIBUTION TO BENEFICIARIES.

As signaled in our last year's report, a distribution of \$100 per consumer was made in July 2006. This was well received and a total sum of \$855,783 was distributed from funds accumulated up to 31st December 2005 to consumers at that date.

INCOME

DIVIDENDS

Receipts from KCE Ltd totalled	\$449,908
Receipts from TLC Ltd totalled	<u>\$ 33,000.</u>
A total of	\$482,908

INTEREST

The trust policy of placing unallocated funds into term deposits provided an interest return of	\$ 58,035.
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TRUST COSTS. A significant increase in costs over 2006, to \$394,688, resulted from conducting the five yearly ownership review required by the trust deed, costs that at balance date had reached \$97,788.

In parallel to this, the response necessary to challenge the two take-over bids by Todd Energy, and WESCT's intention to exit their shareholding in KCE, required considerable extra costs for commercial and legal advice, and trustee costs. These totalled \$189,182 at balance date. Without these unforeseen costs, operating expenditure would have been normal.

THE LINES COMPANY LTD

The company continues to operate under price control. The formula for network operations will not be reset by the Commerce Commission until 2009. After distributing \$6,200,000 discount to consumers, the company has achieved an after- tax profit result of \$2,940,085, some 71% increase on 2006. Company equity has improved 4.0% to \$73.9 million giving this Trust an equity share of \$18.75 million. The consumers in the area of this Trust benefit from the discount by approximately \$1.5million

Price control, new technology being introduced for metering, and avenues for increasing non-regulated earnings remain a challenge for the company. The continued improvement in reliability of supply, with a reduction in outages, is another positive trend in company performance.

Consumer relations around invoicing and a new load-based tariff will need to be carefully managed before there is consumer acceptance of the changes, as many disgruntled consumers have unresolved issues.

KING COUNTRY ENERGY LTD

In spite of the controversy of ownership takeovers, the results have been excellent for the year with a \$4,668,000 profit after tax, an increase of 20.8 % on 2006. Shareholders have received dividends totaling \$4.5m in the past year with the prospect of future increases.

The outcome of the resource application to the Environment Court for the Mokau hydro project will be keenly watched, as, if successful, the development of the project is important to the company, district and consumers.

The trustees look forward to using their increased share holding in KCE to build on a successful business.

WEBSITE DEVELOPMENT.

Our site is not yet launched as its development was relegated in priority as a result of more pressing demands on the trustees' and Secretary's time.

GUIDELINES

The Trust, under section 10.1 of its Guidelines for Access to Information by Beneficiaries, is required to include in this report the outcomes of requests made under the Guidelines. Trustees report :

(a)	Number of requests for information	NIL
(b)	Costs incurred to process requests	NIL
(c)	Number of Trust decisions subject to review	NIL
(d)	A summary of the outcome of reviews	NOT REQUIRED
(e)	Costs incurred in respect to reviews	NIL

CONCLUSION.

A year of great activity and change for the trust, ranking it just as importantly with its establishment in 1993, and the restructuring and consumer share issue associated with the King Country and Waitomo amalgamation in 1998.

The refocusing of shareholding and future direction will need to be carefully managed, but provides opportunities to see the development of the investments and value that the trust holds on behalf of its beneficiaries, building on the gains achieved in the last five years (see chart 1).

In concluding trustees wish to thank you for the support and interest they received in reviewing the trust structure and share holding in the recent ownership review.

B.J.GURNEY (Chairman.)
15th August 2007



CHART 1.

KING COUNTRY ELECTRIC POWER TRUST – INVESTMENT VALUE

This chart demonstrates the Trust's investment value to the current year, and a forecast to the 2008 year, after the completion of transactions divesting part of The Lines Co Ltd (TLC), and acquiring a further 10% of King Country Energy Ltd (KCE).

	<u>Actual</u>					<u>Forecast</u>
	2003	2004	2005	2006	2007	2008
\$000'S						
TLC	16,138	16,765	20,900	17,764*	18,480	7,400
KCE	3,637	4,969	6,375	6,937	9,019	18,540
CASH	234	517	838	1,292	690	8,500
<u>FIXED</u>	<u>.3</u>	<u>.26</u>	<u>3.2</u>	<u>1.7</u>	<u>1</u>	<u>.9</u>
TOTAL	20,009	22,251	28,116	25,995	27,270	34,560
%CHANGE	-	+11	+26	-7*	+5	+22

* Value reduced by change in accounting policy

PERCENTAGE INCREASE IN TOTAL INVESTMENTS OVER FIVE YEARS

