

# **KING COUNTRY ELECTRIC POWER TRUST**



## **ANNUAL REPORT 2010**

The Trustees of the King Country Electric Power Trust have pleasure in presenting the sixteenth annual report to its consumer beneficiaries.

### **Administration**

The year ending 31st March 2010 has been a year of considerable activity with Trustees at each meeting having a challenging agenda to deal with.

The highlights of company activities will be detailed later in this report but Trustees have focused on a range of other activities including completion of compiling the history of the development of a power supply in the King Country, the commencement of a review of the trust deed and preliminary work on the next energy efficiency project, as well as a review of the Trust's investment strategy.

Meeting attendances were recorded as follows:

Brian Gurney	Omori	15 meetings
Graeme Cosford	Taumarunui	11 meetings
Michael Turner	Owhango	14 meetings
Uwe Kroll	Ohakune	10 meetings
Norman Annand	Taumarunui	14 meetings

Mr Robert Carter was elected unopposed as a Trustee in January and prior to taking up his duties on 1st April 2010 replacing Mr Michael Turner, he attended two meetings as an observer.

We should all congratulate and thank Michael Turner for his dedicated service to the Trust and its beneficiaries over eight years and in particular the effort he has put in to see the production of the book "Switching on the King Country" made so successfully.

## **Distributions to Beneficiaries**

Trustees reviewed the policy on distributions during 2010 and in March 2010 made two distributions.

The first distribution was to all beneficiaries, made from income derived by way of dividends from The Lines Company and cash investments.

Income from King Country Energy dividends was distributed to beneficiaries who are KCE customers.

Trustees believe this is a more equitable process than that used previously and in total distributed \$1.5 million after the costs of operating the Trust were deducted.

## **Financial Results**

Income for the year at \$2.157 million was down from the previous year due to lower interest income from cash investments and a reduced dividend from The Lines Company.

Trust expenses were \$167,764 compared with \$155,646 in the previous year; a 7.7% increase.

The main aspects of expenses increases were the cost of producing and mailing of a newsletter, a full year effect of Trustee fees increased in 2009 and election expenses. Offset costs of lower consultancy and accounting fees were made, now that the IFRS accounting standards have been incorporated into our financial accounting.

Profit from Trust operations totalled \$1.332 million after tax.

## **INVESTMENTS**

### **King Country Energy Ltd**

During 2010 a new Chief Executive Officer, Mr Rob Foster was appointed on the retirement of Mr Kit Wilson. This has resulted in a reshaping of the management team and a greater focus on achievement of realistic profit margins across all consumer groups.

Governance was refreshed with the appointment of Mr Toby Stevenson as a director following the resignation of Mr Gordon

Gower as a director. The key strategy of development of generation capacity to reduce reliance on electricity purchases from the hedge market remains a key objective.

Company financial performance was disappointing for the year with the cost of electricity rising and the writing off of \$1.578 million of accumulated Mokau Hydro development costs.

In spite of reduced profitability due to the unfavourable conditions for settling electricity hedges, the company has strong fundamental performance with sound sales revenue of \$33.28 million and net cash flow of \$7.1 million. This has allowed the business to declare the same level of dividends as in the 2009 year of 24 cents plus tax credits per share, yielding the Trust \$1,285,710.86 income.

The market value of shares as at 31st March 2010 has fallen somewhat in a weaker share market generally, to \$4 reducing Trust equity marginally to just under \$15 million.

### **The Lines Company**

The stated overarching challenge of replacing old assets has impacted on the company performance in a number of ways. The need to raise funds to replace equipment has seen the company increase charges and actively pursue demand pricing to reduce the need to increase line capacity.

These additional costs to consumers at a time of difficult economic conditions has led to many consumer complaints both to the company and Trustees regarding the level of increases and the cost changes created by demand rather than volume charging. The issues associated with these changes are still to be fully resolved in order that consumers are satisfied that a fair and equitable tariff regime is in place, Trustees are working with the company and consumers in order to resolve the problems.

Financial performance has improved on 2009 with revenue of \$40.523 million, after deduction of costs yielding \$6.06 million net profit after tax a 50% improvement but still less than the 2008 result.

The development of new unregulated subsidiaries that have not yet reached profitability leaves the network and metering divisions as the core earners for the company.

Service quality has remained stable with an average overall supply failure of 298 minutes (295:2009) and 2.67 (4.68:2009) outages per customer.

Equity in the business of our 10% share holding is valued at \$8.91 million based on net assets at 31st March 2009.

The Trust received dividends of \$433,378.08 including tax credits during the year.

### **“Switching on the King Country”**

The history of the development of electricity in our region was largely completed by the end of the year and after printing will be launched on the 24th July 2010 by the Rt Honourable Jim Bolger ONZ. Trustees believe it will be a valuable record of the industry and the part the companies and employees have played in the economic development of the King Country.

Trustees thank King Country Energy for their joint sponsorship with KCEPT of the project, the many people present and past for their contributions and as mentioned earlier, Mr Michael Turner for convening the book committee that coordinated the production and launch.

### **Access to Information Guidelines**

No requests for information under the guidelines have been received. Any information informally requested has been freely supplied where it was available.

The Trust, under section 10.1 of it's guidelines for access to information by beneficiaries, is required to include in this report the outcomes of requests made under the Guidelines. Trustees report:

- |   |          |
|---|----------|
| ○ Number of requests for information          | NIL      |
| ○ Costs incurred to process requests          | NIL      |
| ○ Number of Trust decisions subject to review | NIL      |
| ○ A summary of the outcome of reviews         | NOT REQD |
| ○ Costs incurred in respect to reviews        | NIL      |

## **Conclusion**

In summarising the year one would say it has not been a stellar performance for returns on investments with the economic environment limiting returns to 6% before tax or 4% after tax.

On a positive note distributions of \$2.283 million were made to beneficiaries in the financial year (\$1.5 million calendar year) and the Trust contained costs to approximately \$16 per beneficiary.

Investments have been protected from capital loss and equity movements in the shares held have not seen the severe reductions experienced in the market at large.

Your Trustees have been very active in protecting beneficiary's interests and dealing with issues that impact on the quality or cost of electricity supply. Considerable effort goes in to improving Trustee knowledge and the King Country is well represented at a national industry level contributing to the development of the total industry.

A special thank you should be extended to Tessa Stewart, our Secretary, who has had a very busy year. We keep promising her that the next year will be normal but it doesn't eventuate. Maybe 2011 will be normal. Tessa's professional service is a real asset to the Trust.

All the Trustees have made significant contributions to the Trust affairs and I thank them for their efforts, it has made my task as Chair that much easier. Thank you all.

Signed on Trustees behalf,  
Brian J Gurney

A handwritten signature in black ink, appearing to read "B. J. Gurney". The signature is stylized with a large, sweeping initial "B" and a horizontal line extending from the end.