



**AUCKLAND ENERGY CONSUMER TRUST
CHAIRMAN'S REPORT**

FOR THE YEAR ENDED 30 JUNE 2013

Presented at the Annual Meeting of Beneficiaries, 30 October 2013

Good evening and welcome to the 2013 Annual Meeting of the Auckland Energy Consumer Trust.

I am William Cairns, Chairman of the Trust. I am joined here tonight by my fellow Trustees:

Michael Buczkowski, James Carmichael, Warren Kyd and Karen Sherry.

We extend a very warm welcome to all AECT beneficiaries who are here tonight, as well as guests including:

- Representatives from Vector's Board of Directors and management team.
- Our accountants, auditors and legal advisors.

Minutes

The minutes of last year's meeting are included with the financial reports. The minutes were approved by Trustees on 13 December 2012.

They have been available on the AECT website since 22 January 2013.

There is no requirement for the minutes to be approved or adopted by this meeting, but it will be noted that they were tabled and received.

Trustees Meeting Attendances : 1 July 2012 – 30 June 2013

	Full Trust	Regulation and Strategy Subcommittee	Communications and Dividend Subcommittee	Finance and Risk Subcommittee
	11	5	5	4
William Cairns Chairman	11	4	4	4
Warren Kyd Deputy Chairman	11	5	5	4
Michael Buczkowski Chair: Finance and Risk	11	3	4	4
James Carmichael Chair: Communications and Dividend	11	5	5	4
Karen Sherry Chair: Regulation and Strategy	11	5	4	4

During the year 11 full meetings of the Trust and 14 subcommittee meetings were held.

The subcommittee meetings are held to address matters in detail, under the leadership of the subcommittee Chair.

Michael Buczkowski is Chair of the Finance and Risk Subcommittee;

Karen Sherry is Chair of the Regulation and Strategy Subcommittee;

and James Carmichael is Chair of the Communications and Dividend Subcommittee.

Prior to each meeting, Trustees are required to have reviewed all the papers and background material provided for the meeting, and to have conducted any further research or analysis to ensure they are fully informed regarding matters under consideration at each meeting.

Trustees are remunerated for their work on the Trust, and there has been no increase in this remuneration since 2008.

Financial report

The Financial Statements have been approved by the Trustees and our auditors, Grant Thornton, issued an Unqualified Audit Certificate on 22 August 2013.

Copies of the Financial Statements were posted on our website.

The key points are:

Income received

AECT INCOME	2009	2010	2011	2012	2013
\$m					
Dividend Received	50.7	54.4	56.3	56.3	56.3
Final					
Dividend Received	48.8	48.8	50.7	52.6	54.5
Interim					
	99.5	103.2	107.0	108.9	110.8
Interest received	2.0	1.3	1.4	1.5	1.6
	101.5	104.5	108.4	110.4	112.4

The \$112 million income received by the Trust for the year ended 30 June 2013 comprised:

- \$56.3 million received in September 2012 from Vector's final dividend for the year ended 30 June 2012;
- \$54.5 million received in April 2013 from Vector's interim dividend for the year ended 30 June 2013.
- And \$1.6 million in interest from funds on deposit.

Trust expenditure

AECT EXPENDITURE \$m	2008	2009	2010	2011	2012	2013
DISTRIBUTION	\$1.1	\$1.1	\$1.0	\$1.1	\$1.1	\$1.0
OPERATIONS	\$2.3	\$2.1	\$2.2	\$2.0	\$1.9	\$2.0
PROJECTS	\$1.4	\$0.3	\$0.7	\$0.2	\$0.4	\$0.6
TOTAL	\$4.8	\$3.5	\$3.9	\$3.3	\$3.4	\$3.6

Total expenditure incurred by the Trust was \$3.6 million.

The key contribution to last year's expenditure was election costs. Total election costs were \$392,000, incurred across two of our financial years. The election costs incurred during the 2012/13 year were \$258,000.

So in real terms, costs have been well contained over the past 5 years.

The \$3.6 million cost of operating the Trust is against total investments of \$2.07 billion. This equates to a management cost of 0.17% or around one sixth of one percent. This compares extremely favourably with other investment organisations and Trusts.

Withholding tax

A key area of work for the Trust this past year has been to reduce the AECT withholding tax rate.

The Trust is required to pay withholding tax on the dividend at the rate of 33%. Dividends paid to the Trust by Vector have imputation credits attached at the corporate tax rate of 28%. The Trust is required to pay the 5% difference on behalf of beneficiaries.

This year, that was \$24.15 on each dividend payment, which adds up to more than \$7 million to be paid by the Trust.

That's a significant cost to the Trust. But it also affects many of you too. The table below shows the spread of tax rates amongst New Zealander tax payers. Over 75 percent of our beneficiaries will be on the tax rate of 17.5% or lower, so could well be paying too much tax on their dividend.

INCOME	TAX RATE	% OF TAXPAYERS IN INCOME BRACKET
0 - \$14,000	10.5%	26.4%
\$14 - \$48,000	17.5%	48.9%
\$48 - \$70,000	30%	13.9%
\$70,000 +	33%	10.8%

Over the past year, we have tackled this issue with the IRD and the relevant Ministers, as well as appropriate MPs.

There is, though, no willingness in Wellington at present to change the Trust tax rate. So we will keep working on this matter and pushing for a more realistic tax rate on the AECT dividend.

Distributions

This year, the Trust was extremely pleased to be able to increase the dividend payment to \$330.

Trust distributions	2009	2010	2011	2012	2013
Dividend total (\$m)	98.2	98.7	99.3	100.1	103.6
Number of beneficiaries	307,000	308,996	310,556	312,700	314,104
Net amount per beneficiary	\$320	\$320	\$320	\$320	\$330

It has actually been quite an achievement to maintain the dividend at \$320 for the past few years, given that beneficiary numbers increase by up to 2,000 each year.

At \$320 each, that's \$640,000 just to cover the extra people every year.

So, to be able to increase the payment this year to \$330, and to more beneficiaries than ever - and pay even more in tax - is significant.

In my view, being able to increase our dividend takes careful management on three levels:

- control of our expenditure
- good governance of our investment in Vector
- and prudent administration of our funds.

This means we were able to confidently increase the dividend to \$330 this year to a record number 314,100 beneficiaries.

Deloitte review

The distribution of the dividend is a highly complex activity each year. It is a distribution of more than \$100 million and we must take great care to ensure that every rightful beneficiary receives their dividend.

The dividend project team has developed a set of processes to ensure this all happens accurately, but it is important that those processes are tested periodically.

In 2010, we asked the financial services firm, Deloitte, to review those processes. They made several recommendations which were implemented, but overall were satisfied with the processes and controls.

For the 2013 dividend, we requested Deloitte to re-visit the high risk areas of the dividend process and also to assess third-party processes. This is where, for example, we use Computershare, a renowned registry office, for the actual transaction of the dividend money.

I am pleased to report that, overall, Deloitte has observed an improvement in the dividend process since 2010. Specifically, management has implemented all actions agreed by the AECT Audit Subcommittee in response to Deloitte's 2010 review findings.

Management continues to monitor risks that were identified by Deloitte in the 2010 report.

In the 2013 report, Deloitte found there were no high risk findings, meaning that there are no significant issues to report.

However Deloitte has recommended some process modifications to further improve the security of the dividend distribution and these will be assessed and implemented where possible prior to next year's dividend.

The value of the Trust

It has been 20 years since the AECT was created in 1993 as an independent consumer trust.

In that 20 years of Trust ownership, the value of the Trust has grown around six times in value to more than \$2 billion. The current value of the Trust is:

- The Trust's assets are around \$2 billion including its shares in Vector at market value and its cash holdings.
- This investment at cost is \$300 million.
- At balance date, Vector's share price was \$2.68 *
- At the same date last year the share price was also \$2.68.
- And it is currently trading at \$2.57.

That's the corporate view of the Trust's value.

From the community, the value can be seen in the annual dividend. Every year, that's money in the hand for more than 300,000 people. It's more than a hundred million paid to the community every year. In total, over the past 20 years, the AECT has injected more than \$1 billion into the local Auckland economy through this dividend.

Taking the corporate view and that of the beneficiaries, the value of the AECT to the people of Auckland is therefore very clear.

However, we cannot be complacent. Why? Because not everyone shares our view about the rights and value of the Trust.

Protecting the future of the AECT

There are certain politicians – and media commentators – who seem to forget that this is an independent consumer trust. It is not a subsidiary of any council. It is an independent entity.

Yes, at the end of the Trust's life, the assets of the Trust are scheduled to transfer to capital beneficiaries. But I must make two points here:

1. That does not take place until 2073.

The Trust was set up to run for 80 years. It does not reach full term until 2073. So, we

have a duty to make sure it is safe until then. It is simply wrong for anyone to suggest that we should hand it over to the capital beneficiaries before then.

2. We don't know yet who the capital beneficiaries will be.

The Trust Deed states that the capital beneficiaries will be those Local Authorities which, at the termination of the Trust Deed, have their districts or boundaries in any part of the Trust District.

Until recently, there were 3 Local Authorities in that position. With the creation of the 'supercity', there is currently only one. But in 2073, who knows what Local Authorities will be in place. So, again, it is premature to even speculate on this.

That's a very layman's view of our position, but it is in essence what we have to tell assorted politicians and their advisors on an increasingly frequent basis.

So next time you hear some ill-informed commentator suggesting the AECT is the way to afford Auckland's trains, for example, you're very welcome to put them straight.

Regulation and strategy

There are a number of other areas where we put in considerable work to keep things straight, not just for the Trust but also for Vector in the regulatory environment.

Presentation from Karen Sherry, Chair of the Regulation and Strategy Subcommittee

It is absolutely correct that we do a lot of work in the regulatory area, and this year has been no exception.

The work we have undertaken in this area this year includes addressing changes to trust law proposed by the Law Commission.

These changes have the potential to affect the AECT, so we have been actively engaged with the Commission to ensure their proposals weren't to the detriment of the AECT.

We worked closely with Energy Trusts of New Zealand on this issue, as 22 voices are stronger than one.

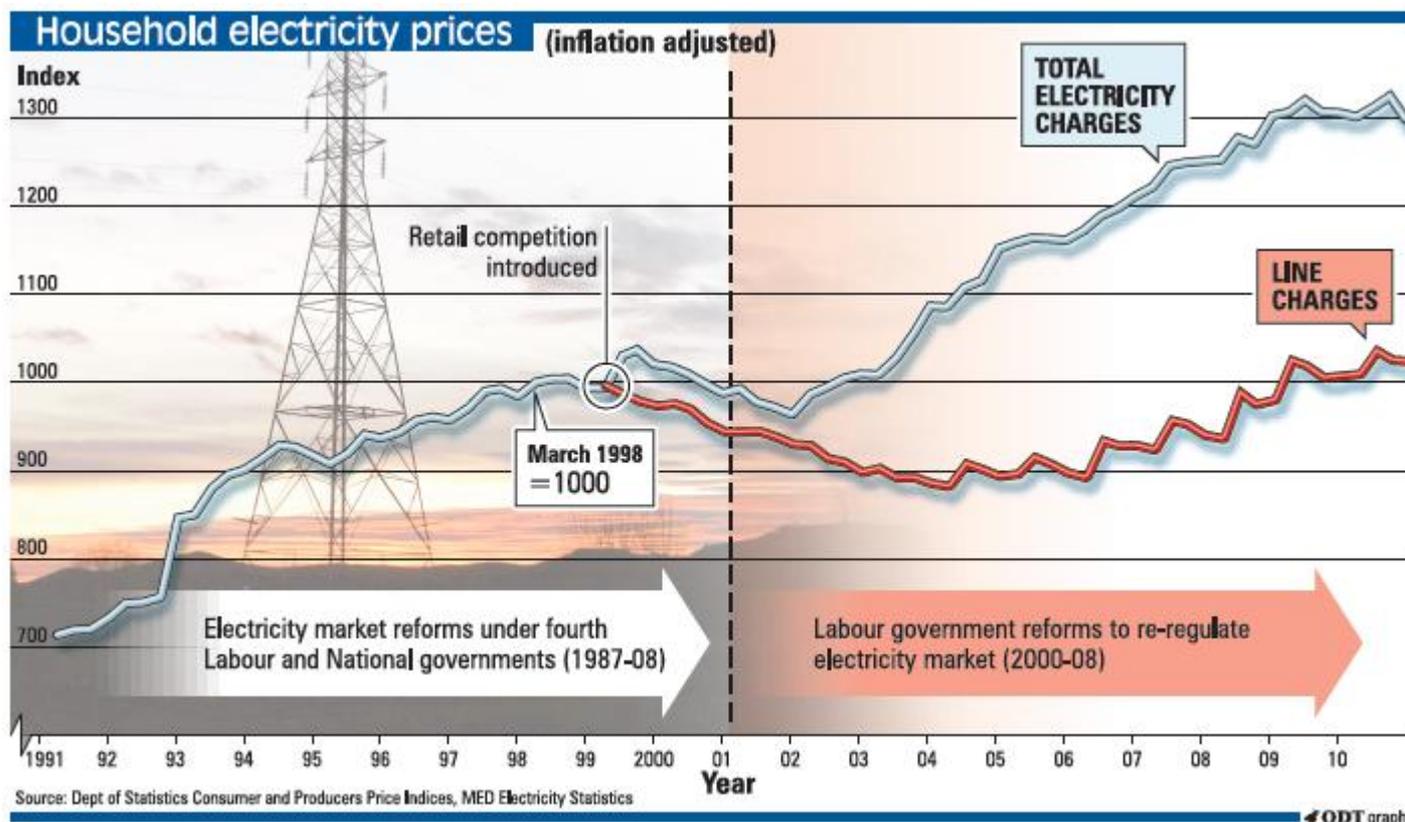
We and ETNZ are monitoring progress on these Law Commission proposals and can assure you we will act quickly to ensure your trust is protected if any unrealistic changes are proposed.

Commerce Commission

As always, a large part of our work during the year involves submissions to the Commerce Commission.

One area where we were particularly active was in support of Vector's reduction in lines charges.

In recent years, the gap between lines charges and the rest of the costs on your power bill has increased.



The gap got bigger in April, as Vector reduced lines charges for residential customers by 9%, in line with the Commerce Commission price-quality determination.

We have completed a lot of work with the Electricity Authority, the Commerce Commission and local MPs, to ensure that the Vector price reductions are actually passed on to consumers by electricity retailers.

It is appalling that, two months after those reduced charges were introduced, only two of the 11 electricity retailers had passed them on to consumers.

You might want to check your own power bill to make sure you are benefitting from Vector's reduced costs.

There are other matters in the regulatory area where we have made important submissions which include:

Submission to the Retail Advisory Group, advisor to the Electricity Authority (EA).

This concerned the review into power pricing conducted by RAG, which was concerned with how to enable power consumers to more easily understand what was driving the increased costs shown on their electricity bills.

Our submission suggested that a detailed breakdown of charges should be included in the bill so that consumers can see what they are paying for and understand how each component is priced.

Transmission Pricing

Earlier this year, we also made a submission to the Electricity Authority on transmission pricing methodology (TPM) through which Transpower recovers its costs.

Transpower owns the national grid.

The EA proposed that a different way of distributing transmission costs would improve electricity markets.

Our assessment of the EA proposal concluded that, while the idea might have some advantages, the way it was going to be executed made it expensive and there was no assurance the advantages would outweigh the increased expense.

In our view, the overall impact of the EA proposal had the potential to be negative to our Auckland consumers.

Productivity Commission (PC)

The Productivity Commission is holding an enquiry into design and operation of regulatory regimes.

We are currently working on a submission to the Productivity Commission's enquiry into the design and operation of the regulatory regime. This enquiry focuses on the practicalities of a regulator balancing the interests of consumers and investors. In particular, it focuses on how the regime might manage commercial uncertainty.

Summary

In all our regulatory submissions, we accept that Vector operates mostly in a regulated environment and that pricing for consumers needs to be monitored. However we also need to be very careful that regulation does not lower returns to the degree that investment in infrastructure is effected and a threat to the security of power supply to our beneficiaries – and to all of Auckland.

So the AECT must and will continue to work for regulatory resolutions that:

- Allow the company to invest and innovate for growth
- Deliver a consistent and balanced regulatory framework
- And ensure long term security of supply.

ETNZ

I would also like to comment here on the AECT's work with ETNZ, the association of energy trusts in New Zealand.

The ETNZ represents 22 energy trusts around the country. The AECT is the largest of these, by far. But even the smallest trust faces many of the same issues we face, so we can all learn from each other.

We are also a more powerful voice when we speak together on those issues.

So the AECT is actively involved with ETNZ, and provides support for the ETNZ secretariat and executive activities.

I am currently Chair of the ETNZ, and my fellow Trustee James Carmichael sits on the ETNZ executive.

The AECT provides further support through our own staff, with Joy Stevens serving as ETNZ Secretary. The secretariat services are paid for by the ETNZ.

As I previously mentioned, many of the submissions we make on the issues facing the energy industry are made in association with the ETNZ. This is becoming an increasingly important industry voice and we will continue to make a strong contribution to the ETNZ, with the time, expertise and the knowledge our Trustees bring to the table.

This is not just for the benefit of the AECT, or Auckland, or Vector. It is about having a strong, experienced voice on matters that affect the future of energy and infrastructure for all of New Zealand.

Comment from William Cairns, Chairman: The work in the regulatory area that Karen has highlighted here is enormously important given that large parts of Vector's businesses operate in a highly regulated environment. As the major shareholder in Vector, we have a duty to protect our investment in the company, and in the energy sector; so this is an area where your Trustees put in considerable effort and time every year to protect the value of our investment.

Presentation from James Carmichael, Chair of the Dividend and Communications Subcommittee

I'm very pleased to report that it has been a very productive year in regard to communications for the Trust as we have developed and begun to implement a more active communications strategy than we ever have had in the past.

The strategy is built on four pillars:

- 1: Creating genuine engagement with people at different levels.
- 2: Streamlining the dividend communications, so that we are not trying to communicate everything at once. Instead we will focus only on dividend information at that time.
3. Developing a programme of communications that enables us to highlight the real value of the AECT to the community throughout the year
4. Researching what we communicate to ensure it is effective.

To date, what we have done under those pillars is:

- Developed an e-newsletter which currently goes to 3,300 people. If you haven't received this yet, just go to www.aect.co.nz and register.

The first e-newsletter went out in September. The next is due to go mid-November. Thereafter, it will go out four times a year.

- Updated the AECT website.

The last time the AECT website was given an overhaul was in 2008. A lot has changed in the way people use websites since then, and our new design reflects that.

The new design of the website will make it easier to find your way around, depending on the kind of information you need. It will also automatically adapt the layout for people viewing the site from a mobile phone or device, which is how more and more people are viewing websites today.

We will also have a lot more information rotating on the home page so people will see different highlights each time they come to the site.

It's a very fresh look and we are very pleased with the finished result. It will be live from early November at www.aect.co.nz.

- This year we have also become more proactive in getting the Trust message out to the media, and in responding to incorrect information that appears in the media from time to time

We are taking professional assistance in this area and we won't see instant results but we are aiming to have more positive coverage of the Trust in the media in the future.

- As for our advertising, we have done as we do every year: we have run a two week campaign when we send out the update forms and again at dividend time.

The main reason for the advertising is to let everyone know that either important documents or the dividend are in their letterbox. This helps prevent the mail being lost or stolen, and it also lets people know to call us if they didn't receive it.

- You may be surprised to know that, every year, we take around 25,000 calls at our call centre. Obviously, there is a considerable cost in dealing with those calls – around \$165,000 a year.

In many cases, people do need to call us – especially if they haven't received their dividend when they are entitled to one. The Trust has a legal obligation to pay everyone who is entitled to the dividend, so it is important that we let people know of their eligibility and when the dividend has been paid.

We need to put that information out every year because several thousand new consumers move into the Trust District every year and they need to be made aware of their eligibility for the AECT dividend.

But, obviously, we would like to reduce costs in this area. So that's where the communications strategy comes in, for example with the website. Every question we can answer online saves us around \$6 in call centre costs.

I'm very pleased with the work we have done on the communications strategy to date, and we will continue to build on it to ensure people really know what the Trust is, what it does, and why it is a most valuable asset for our beneficiaries and the community.

SUMMARY FROM WILLIAM CAIRNS, CHAIRMAN

It has been a productive and positive year for the Trust, and we appreciate the assistance of the professional advisors who deliver specific support for our work including:

- Legal advisor, David Bigio
- Accountants, Staples Rodway
- Auditors, Grant Thornton
- Regulatory advice: John Yeabsley, NZIER
- Advertising agency, Y&R
- Dividend team: Kath Bolton, Computershare, Solution Dynamics mailhouse, ANZ Bank, Mike Fox, Anders Berg, Telnet call centre, Vector staff.

Thank you all.

To the Trust staff – all two of you, Executive Officer Ian Ward and our Secretary, Joy Stevens – thank you for the ongoing professional and expert service you provide to the Trust.

To the Board of Vector, Simon Mackenzie and all your people at Vector: thank you for delivering another fine result this year.

While we talk about AECT beneficiaries here, they – we - are, of course, also Vector customers, so your success directly affects your customers.

As your majority shareholder, we appreciate and support the continued commitment you have to growing that success.

Finally, I thank our beneficiaries for joining us here tonight. We thank you for taking an active interest in the AECT and appreciate your time and attention to the performance of the AECT.

Appointment of auditors

At last year's Annual Meeting, Grant Thornton was appointed following a robust tender process. Being available for the 2103/14 audit, the Trustees recommend the retention of Grant Thornton for the current financial year.

[Motion was carried.]

Remuneration of auditors

In accordance with section 101 (3) of the Electricity Industry Act 2010, the Trust be authorised to fix the fees and expenses of the auditors for the ensuing year.

[Motion was carried.]