

## **AUCKLAND ENERGY CONSUMER TRUST**

### **CHAIRMAN'S REPORT**

#### **FOR THE YEAR ENDED 30 JUNE 2009**

Consolidated from the presentation to the Annual Meeting of Beneficiaries

7.00pm Thursday 29 October 2009

At the Auckland Racing Club and Ellerslie Convention Centre, 80-100 Ascot Avenue, Greenlane.

The year ended 30 June 2009 has been a stable and solid period for the Trust.

We were pleased to see that the Royal Commission of Inquiry on Auckland Governance had heard our case for excluding the Trust from any changes in the city's framework. They listened to us and did not make a recommendation that control or ownership should pass to the new Auckland City or any other entity of local government. Their recommendations on the super-city mean there should be no change to the Trust's status.

However, we continue to monitor developments in regard to the super-city to ensure that the new authority does not introduce any changes that would impact on the Trust and our beneficiaries.

#### **Income**

During the year ended 30 June 2009 the Trust received a total of \$99.5 million in dividends from Vector. This comprised:

- \$50.7 million received in September 2008 from Vector's final dividend for the year ended 30<sup>th</sup> June 2008 and
- \$48.8 million in April 2009 from Vector's interim dividend for the year ended 30 June 2009.

The increase in dividend payments from Vector reflects a slightly higher payment per share for the year. However this was offset by a steep fall in interest rates received by the Trust during the year which caused a significant reduction in the money earned from funds held on deposit.

Interest income this year reduced by \$700,000 compared to the previous year, and this reduction was forecast at last year's annual meeting. It is a matter that is outside our control, although we do negotiate and receive preferential rates from the banks.

#### **Expenditure**

Costs incurred by the Trust are strictly controlled but do vary year by year according to environmental and business factors.

For the year to 30 June 2009 the total expenditure incurred by the Trust was \$3.4 million. This comprised approximately \$1.06 million in the distribution of the dividend, \$2.06 million in operating costs, and \$301,000 in project costs.

In total, this is a reduction of \$1.4 million compared to last year. The reduction in costs this year was largely due to the reduced requirement for project costs. This year, for instance, there was no Royal Commission on Auckland Governance or similar extraordinary activity which required Trust attention.

However, outside the period under review, other factors have arisen including the triennial election, as well as the Commerce Commission's re-set of the price-quality paths applying to electricity lines companies, and the Ministerial Review of the electricity market. These will all have an impact on costs incurred by the Trust for the next financial year.

### **Distributions**

Trust distributions \$m	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Dividend amount paid (\$m)	48.2	52	92.5	96.6	97.6	98.2
Number of beneficiaries	286,000	292,000	298,500	302,000	305,000	307,000
Amount per beneficiary	\$170	\$180	\$310	\$320	\$320	\$320

It is pleasing to note that, despite continued growth in beneficiary numbers, the Trust has been able to maintain a dividend of \$320 for each beneficiary. This also applies to the most recent dividend payment which took place in September 2009 and is part of the financial statements for next year.

The payment of the dividend has a significant impact on the community. Since 1993 when the Trust was formed, we have distributed more than \$800 million in dividends back to the community.

Since 2006, when beneficiaries were given the option to receive the money directly or have it credited to their power accounts, that has been largely a cash injection into the economy.

In the year under review, we paid out more than \$97 million, of which \$85 million was paid in cheques or direct to bank accounts. Nearly 45% of beneficiaries requested that their dividend be paid directly to their bank account. Around 12% requested it be paid to their power account. The remaining 43% received a cheque.

We will continue to endeavour to increase the numbers receiving their dividend by direct credit because this not only reduces the cost of distribution, it also reduces the risk of mail theft and potential fraud.

### **Investment in Vector**

The Trust's investment in Vector Limited at cost is \$300m.

Vector's Market Capitalisation at 22 October 2009 is \$1.99 billion.

The AECT's shareholding based on the Vector share price of \$2.00 at 22 October 2009 is \$1.5 billion.

The value of the Trust's shareholding has remained relatively steady over this past year, despite the economic turmoil during this time. We appreciate the results Vector have achieved this year under adverse conditions.

As Vector has previously noted, the recession had an impact on their business. New connections slowed, and volumes were down. However \$20 million savings were achieved from efficiency programmes introduced two years ago.

The Trust is also pleased to note Vector's improved debt profile and stable ratings.

### **Commerce Commission**

Throughout the year the Trust has monitored and made submissions to the Commerce Commission regarding regulatory matters that affect our investment in Vector.

The Trust has made a number of submissions in relation to the 2010 pricing re-set currently being considered by the Commission. In the past month, the Trust has been represented at Commission discussions by expert advisors, SAHA International and, where appropriate, available Trustees have also attended these meetings.

Our representation before the Commission is extremely important, because the Commission's decisions affect the viability of Vector. That, in turn, affects the return to the Trust and our beneficiaries. As the owners of regulated businesses, our point of view may be different to that of business operators, so it is very important that we are represented here.

We have also made a submission to the Ministerial Review of the electricity market, and are monitoring developments in the government's fast fibre initiative.

Again, these are matters that affect our investment in Vector. As the majority owner of Vector we pay close attention to all these matters, to ensure the interests of our beneficiaries are preserved and protected for the life of the Trust.

### **Fast fibre**

One of the important new business areas the Trust is monitoring concerns the Government's fast fibre proposal. The Trust supports Vector's active interest in this opportunity, which should bring true fibre capability to all New Zealanders in a more competitive and efficient way that will benefit consumers.

It is also an important opportunity for growth in Vector's business and the Trust is pleased to support the company in this endeavour.

It is also noted that, along with the fast fibre opportunity, Vector also considers - and at times seeks - many other new opportunities to grow and enhance the business. As these opportunities may well involve or affect the Trust's investment in Vector, the Trust is periodically briefed on any proposals and, where appropriate, our views are sought.

### **Overhead Improvement Programme**

Vector's Overhead Improvement Programme is another important area where the Trust strongly supports Vector's activities.

Through an agreement we have with Vector, millions of dollars are invested in undergrounding in the Trust district every year. The original agreement was for an average \$10.5 million to be invested each year. This increases each year in line with the PPI (Producers Price Index) and is now around \$12.5 million a year.

To date, that has resulted in over 108km of streets across the Trust district being undergrounded, with 135 undergrounding projects completed under this programme.

The primary driver for selecting areas for undergrounding are overhead lines that need replacement. Secondary drivers used are:

- Fault history
- The number of customers that will benefit
- The level of other utility works planned for each area
- Synergy opportunities.

In the past year, the programme has continued to make progress on the large project in Sandringham which covers 9.6km over 26 streets. Eight small projects have been completed:

- Cremorne Street, Herne Bay
- Gt. North Rd, Grey Lynn
- Shelly Beach Parade, Cockle Bay
- Bradford Street, Parnell

- Alpers Ave, Newmarket
- Titoki & Maunsell, Parnell
- Merton Road, St. Johns
- Bradbury Road, Howick

## **Dividend and communications**

In a more obvious manner, the annual dividend is the greatest reminder of the Trust's value to our beneficiaries, especially since beneficiaries have had a choice in how they receive it. The overwhelming majority of beneficiaries prefer to be paid in money, rather than on their power accounts.

The decision to pay beneficiaries the money has made an enormous difference to awareness of the Trust. In 2006, when the dividend was paid only as a credit to power accounts, fewer than 5% of our beneficiaries knew where the dividend came from. Not surprisingly, most thought it came from their electricity retailer.

Now, after three years of giving people the choice in how they receive their dividend, around 53% of people surveyed consistently name the AECT as the source of the dividend.

This awareness is not simply a 'nice to know' statistic. It is an important part of ensuring that beneficiaries are well informed about the value and role of the Trust.

This valuable asset for the people of Auckland can be threatened – as we have seen in the past - if people are not aware of its existence or role. So increasing awareness amongst beneficiaries is an important part of protecting the Trust for the future.

This growth in awareness of the Trust has been supported by our on-going communications programme.

Our newsletter this year was sent out in early June, and generated 60,000 replies from people who wanted to update their details with us.

And our advertising programme continues to take place twice a year, once when the newsletter goes out and once at dividend time. The advertising is monitored to ensure it is cost effective, and the most recent of this research also shows that 93% of respondents believe the Trust needs to promote itself.

## **Trustees Meetings**

### **Attendances : 1 July 2008 – 30 June 2009**

	Full Trust	Regulation and Strategy Subcommittee	Communications and Dividend Subcommittee	Finance and Risk Subcommittee
Warren Kyd	15	4	1	2
Michael Buczkowski	14	2	1	2
James Carmichael	15	4	3	2
Shale Chambers	15	4	3	2
Karen Sherry	15	4	3	1

During the year 15 full meetings of the Trust were held, and 9 subcommittee meetings were held.

At the full Trust meetings, a wide range of matters are covered, reflecting the size and scope of the Trust, and of our investment in Vector.

At sub-committee meetings, more time is available for very specific items to be considered, and for recommendations to be prepared for presentation to the full Trust meetings.

In preparation for any of these meetings, Trustees are required to read, consider and understand comprehensive briefing documents, reports and background information, covering a wide range of matters pertaining to the Trust business.

Being fully informed and having a thorough understanding of all matters affecting the Trust – now and for the future – is a responsibility your Trustees take very seriously.

### **Appointment of auditors**

The Trustees recommend that Grant Thornton be again appointed as auditors for the Trust. Grant Thornton was appointed last year after a competitive tender, and their fees for this year's work were \$35,809.

### **Acknowledgements and summary**

This has been very much a steady and stable year for the Trust, with positive outcomes in all areas of our activity.

Thanks are extended to everyone who has been involved with the Trust's work this past year, most especially our Executive Officer, Ian Ward and our Office Administrator, Joy Stevens, for their professional and expert management of Trust matters.

We also thank our legal advisor, David Bigio, and the consultants Saha International and Craigs Investment Partners (formerly ABN AMRO Craigs), who provided expert services to the Trust as needed.

Thanks also go to our dividend team, led by Kath Bolton, who come together twice a year to ensure that all 307,000 of our beneficiaries receive their newsletter and update forms and, of course, their dividend.

We also appreciate the considerable work done by the Board of Vector, its Chief Executive Simon Mackenzie and his executive team, management and staff, in delivering a strong performance in 2008 / 09 in what were difficult financial conditions.

Most importantly, I thank my fellow Trustees: Michael Buczkowski, James Carmichael, Shale Chambers and Karen Sherry, for their commitment and effort throughout the year. Our role is to ensure the continued success of the Trust for our beneficiaries, and I can assure you this is a responsibility that all Trustees take most seriously.

This year is election year for the Trust and 16 candidates are standing for the 5 positions of Trustee. I hope all beneficiaries have taken the opportunity to vote for your preferred candidate. Voting closes tomorrow, Friday 30 October, and the results will be declared on Monday.

Finally, we thank beneficiaries for your support of the Trust's work and your continuing interest in the performance and future of the Trust.

Thank you.

### **Warren Kyd**

Chairman

Auckland Energy Consumer Trust

October 2009