



# LINE TRUST SOUTH CANTERBURY

**Chairman**

Rick Ramsay  
28 Tekapo Drive  
TWIZEL  
(03) 435-0873  
rick.mtcooksalmom@xtra.co.nz

**Secretary**

McFarlane Hornsey Simpson Ltd  
P O Box 540  
TIMARU  
(03) 688 9082  
scept@mhs.co.nz  
www.linetrustsc.co.nz

---

## LINE TRUST SOUTH CANTERBURY

---

### Ownership Review October 2007 TRUSTEE COMMENTS

---

The Trustees of Linetrust South Canterbury acknowledge and thank the Directors of Alpine Energy Ltd for their report in the three-year ownership review of the Trust. The Trustees also congratulate the Company on its recent performance and efficiency.

The conclusions and recommendations of the report from the Directors are in accordance with the collective opinion of the Trustees.

At the forthcoming joint meeting of the Directors and the Trustees, the Trustees anticipate a unanimous decision to continue the Trust ownership of 40% of the shares in Alpine Energy Ltd.

R D RAMSAY  
CHAIRMAN

---

# LineTrust South Canterbury Ownership Review September 2007

---

In a letter dated 4 April 2007 the Trustees initiated a review in terms of clause 4 of the Trust Deed. The Directors of Alpine Energy are required to report to LineTrust South Canterbury on a number of matters, in a manner prescribed by the Trust Deed. A summary of the requirements is appended to this report.

## **1.0 Introduction**

### **1.1 Industry Overview**

The electricity industry is essentially made up of four sectors being:

- |                 |   |   |
|-----------------|---|---|
| 1. Generation   | : | Production of Electricity in Power Stations |
| 2. Transmission | : | Long Distance Transport on National Grid    |
| 3. Distribution | : | Local Transport by Regional Line Businesses |
| 4. Retailing    | : | Regional Billing and Customer Services      |

### **1.2 Alpine Energy Ltd and it's Shareholders**

Alpine Energy Ltd is the regional distribution business for South Canterbury covering the traditional area except for the Hakataramea which is supplied by Network Waitaki through Kurow, and the upper Rangitata which is supplied by Electricity Ashburton through Mayfield.

Alpine Energy Ltd has four shareholders being:

LineTrust South Canterbury	40.0%
Timaru District Holdings Ltd	47.5%
Waimate District Council	7.54%
Mackenzie District Council	4.96%

The shareholding mix reflects the Timaru District Council's previous sole ownership of Timaru Electricity Limited prior to the merger, the role of LineTrust South Canterbury ("Trust") as a trustee of consumer interests, and the desire for broad community ownership by the allocation of shares to Waimate and Mackenzie District Councils. In 1993 it was anticipated that the South Canterbury Power Trust (and its potential successor) would have a maximum combined existence of 15 years. However, in 2002 the South Canterbury Power Trust was resettled on the Trust. The Trust has a perpetuity period of eighty years from 19 July 1993.

## 2.0 Performance Analysis

There are three key measures of performance for an electricity lines business being reliability, price of services and profit.

### 2.1 Reliability

The Commerce Commission has devised several reliability measures, some related to length, type or voltage of lines, and others related to customer service. The need for any business to focus on customer service is paramount and so the best performance parameter to consider is SAIDI, being the System Average Interruption Duration Index. This gives outages in terms of minutes per year. Alpine Energy continues to be a reliability leader with amongst the best internal statistics in New Zealand.

Year Ending 31 March	SAIDI		
	Minutes p.a.	NZ Ranking	NZ Average
2002	69	7 <sup>th</sup>	156
2003	182 <sup>1</sup>	18 <sup>th</sup>	184
2004	115 <sup>2</sup>	9 <sup>th</sup>	186
2005	69	5 <sup>th</sup>	145
2006	58	3 <sup>rd</sup>	153
5 year average	99	-	165
Threshold 5 year average 1999-2003	87.9	8 <sup>th</sup>	182.5

<sup>1</sup> This includes 102 minutes resulting from a heavy snowstorm in June 2002.

<sup>2</sup> This includes 37 minutes resulting from a cable fault / fire in the Grasmere Street Substation in December 2003.

### 2.2 Price of Services

Alpine's price of services, especially line charges, continues to be amongst the lowest in New Zealand, although with different companies having a different mix of fixed and variable charges and different structures for off peak controlled supply, comparisons are difficult. A simple measure is the line revenue per unit sold on the network:

Year Ending 31 March	Line Revenue ¢/kWh	NZ Ranking	NZ Average
2002	4.3	7 <sup>th</sup> =	5.2
2003	4.2	6 <sup>th</sup> =	5.2
2004	4.3	8 <sup>th</sup>	5.2
2005	4.3	7 <sup>th</sup> =	5.3
2006	4.3	5 <sup>th</sup>	5.5

## 2.3 Profitability

The profitability of the company is a little more difficult to consider because we have the effects of the lines business which is the regulated part of the company, and the wider Alpine Energy Group which includes investments in other companies such as Networks South and NetCon, Opuha Dam, and Rockgas Timaru. Rankings of the lines business part of the company are possible from MOC statistics, however no comparative statistics are available for the Group which is the true extent of the Trust's investment.

Year Ending 31 March	Lines Business Profit		Group Profit on Shareholder Funds
	Return on Equity (ROE)	Ranking	
2002	10.6%	6 <sup>th</sup>	9.9%
2003	11.7%	7 <sup>th</sup>	10.3%
2004	10.3%	7 <sup>th</sup>	9.6%
2005	8.4%	9 <sup>th</sup>	8.1%
2006	11.5%	6 <sup>th</sup>	10.4%

## 2.4 Conclusion

The above performance statistics show that Alpine Energy Ltd, despite the disadvantages of a network spread across a sparsely populated provincial region, consistently meets the highest standards of operational and financial performance.

## **3.0 Continued Trust Ownership**

### 3.1 Strategic Ownership Issues

Alpine Energy, as owner and operator of a regional infrastructure asset, is often under pressure by some groups as a means to achieve a specific agenda. For example it is clear that a percentage of the South Canterbury community is financially disadvantaged and therefore argue that low line charges will help them budget their income. Such a broad brush approach to social needs also means that the better off part of the community also benefits from a social subsidy, and that the discounted cost of electricity prevents other commercial energy sources such as coal, gas (LPG) and firewood from competing on a level playing field.

Alpine Energy Ltd is a strong business entity and puts the sustainable interests of the company and its shareholders ahead of specific agenda and sectional interests. Furthermore it is considered that the restructuring and centralisation of the New Zealand economy has left South Canterbury with few companies with the financial strength and commitment to invest and therefore make a real economic difference to the region as a whole.

Government has expressed its desire to continue the process of gaining industry efficiencies in order to minimise operating costs, return the full cost of capital to shareholders, enable corporate taxation and thereby create efficient pricing of services.

Alpine Energy has chosen to retain ownership and management of the infrastructure assets while forming an associated contracting company (NetCon Limited) jointly with Network Waitaki Limited.

### **3.2 Advantages of Continued Trust Ownership**

The Trust is a single purpose organisation, directly elected by all consumers and representing no specific consumer segment. It is in a unique position to be focussed on the company, its sustainability and performance. While it is possible for a small vocal group to catch the Trustees attention, the 3 yearly election process for Trustees ensures they remain accountable to all consumers, and the needs of the community at large.

The Trustees therefore have a unique opportunity to develop a vision for the future of Alpine Energy that will benefit the whole South Canterbury region and ultimately the consumers. Should the Trust shareholding be distributed it would be more difficult for many individual shareholders to exert such influence over the other major Council shareholders who are perhaps more focussed on a vision for their specific district and ratepayers.

The Trust as a single entity is therefore a strong and influential shareholder able to negotiate equally with the District Council shareholders.

The consequential advantage to the company of continued ownership is that 25,000 beneficial interests in the Trust are co-ordinated by the Trustees into a single strategic vision, rather than many thousands of shareholders having a diverse range of views, and the attendant potential administration costs.

### **3.3 The Disadvantages of Continued Trust Ownership**

There is a cost in operating the Trust, reflecting Trustee fees, administration and 3 yearly election costs. However, this needs to be balanced with the potential costs to the company should the 25,000 consumers hold the shares. This would include the servicing of the shareholders with interim reports, dividends, the annual report, the election or appointment of the two directors the Trust presently appoints and the costs of the annual meeting and extraordinary meetings. Beneficiaries of the Trust, as the future shareholders, are unable to arrive at an informed view on whether the cost to them as individuals of the present situation is greater or lesser than the cost to them of alternative arrangements.

There is a risk that the 3 yearly Trust elections might focus on populist issues and circumvent the genuine legal and commercial responsibilities of the company, as these are much too complex to be represented and comprehended in a public debate. This could create the opportunity for political capture of the legitimate commercial responsibilities of Trustees and the potential for conflict between Directors and Trustees.

Some would consider that rather than a common vision, there is a strong case for widespread shareholding and diversified views as this will bring a broader partnership between individual investors and collective bodies such as District Councils. Continuation of the Trust as a single holder of 40% of Alpine Energy's shares prevents this opportunity from arising.

Continued Trust ownership deprives the individual beneficiaries of the Trust of control and access to their assets. It assumes the individuals in the community cannot manage their personal affairs in a responsible manner.

### **3.4 Options Arising From This Review**

After considering the issues in this review, the Trustees will have a number of options. These include:

- Immediately commence a process of share sale or distribution involving consultation with the public.
- Continue to hold the shares and distribute the dividend proceeds each year.

The Trust in reaching its decision on the preferred option will need to consider the issues outlined above and in addition, a number of further issues including:

1. The ongoing change in the regulatory environment for line businesses makes sustainable decision making uncertain if the best interests of the consumers are to be preserved.
2. Local Government Reform is requiring Local Bodies such as District Councils to operate their commercial investments in an increasingly transparent manner. This places the wish of individual Councillors to meet social goals through the pricing of electricity line services in conflict with the corporate responsibility of Councils to avoid cross subsidies.
3. The high level of misunderstanding in the wider community about the intent and form of the industry reforms makes it difficult for consumers to make informed decisions on their personal options.
4. An early share distribution would likely see widespread cashing up by consumers and dissipation of the community wealth accumulated by the Company and Trust.
5. Alpine Energy Ltd, which under the requirements of the Energy Companies Act 1992 operates as a successful business, is well equipped and positioned to make informed commercial decisions on expansion and development investments, and brings to those decisions a financial ability to ensure they proceed.
6. While Timaru District Council no longer includes a target to increase its shareholding in Alpine Energy Limited in its Annual Plan, a distribution of shares by the Trust would easily enable the Council to achieve control of the Company by purchasing freely traded shares.
7. Successive Local Government Reforms, and the spectrum of views on commercial development amongst elected members of the Council would tend to prevent Alpine Energy operating as a normal business with a normal commercial risk profile. Local Government demands tend to ensure elected Councillors operate in a risk averse environment.
8. Opportunities to add value to the business by reducing operating and management costs are better investigated and implemented by commercial directors who are able to consult fully with owner representatives who have a detailed knowledge of a very technical industry.
9. If a distribution of Trust shares occurs it is better to be done as a single event rather than a progressive trickle. This will ensure that any selling shareholders are able to maximise sale price and value through the creation of an active market for resale of shares.
10. The sale of shares as a block may realise a “control” premium which would be reflected in the subsequent cash distribution to shareholders.

11. The share distribution should, if it occurs, follow the following process:-

- Valuation of shares.
- Identification of and notification to Trust beneficiaries of their entitlement value.
- Trust beneficiaries elect to receive shares or cash.
- Trust beneficiaries and existing shareholders can elect to preferentially purchase more shares from the pool created by those electing the cash option.
- Based on the size of the pool the then shareholders should consider whether the company buys the remaining shares or offers them for sale to the market at large.

This proposal gives preference to ongoing local share ownership in the medium term and ensures the company retains shareholder loyalty through strong performance.

13. The current Trust dividend distribution policy reflects the level of line charges paid, and therefore the contribution of the various consumer groups to the profit and accumulated value of the company.

It needs to be noted, however, that the traditional political arguments for community ownership and control are not easily justified as it is considered there is appropriate protection against abuse of the natural monopoly. The traditional arguments that should not be accepted as relevant to the debate on Trust ownership include:

- (1) That a share distribution will lead to foreign control and therefore irresponsible management of prices and reliability.
- (2) Collective ownership with zero profit targets solely in order to avoid taxation is a proper use of community assets.
- (3) Low prices through low profit will encourage economic development in the region. There is however, a widely held view that low prices generated by business efficiency and reasonable company profits are helpful in assisting economic growth.

## **4.0 Options for Company Development**

### **4.1 Water Supply & Irrigation**

Alpine Energy at present has most of its assets in the electricity network and support services covering South Canterbury, together with an investment in Rockgas Timaru (50%).

Electricity network growth is entirely demand driven and has occurred in South Canterbury in recent years as a direct result of new on-farm irrigation systems, and the down-stream effects of processing the increased agricultural outputs resulting from that irrigation. To create continuing growth we need a vision of the future and of opportunities such as investment in water supply and irrigation as demonstrated by the Opuha Dam project.

### **4.2 Generation**

The opportunity to invest in distributed generation projects in South Canterbury using renewable energy sources is somewhat limited. However, there are prospects for wind generation that are being considered.

## **5.0 Other Matters**

- 5.1 No external professional advice has been obtained in respect of the preparation of this report.
- 5.2 The directors have given regard to the public consultation undertaken in 2001 that resulted in the resettlement of the South Canterbury Power Trust on LineTrust South Canterbury with a perpetuity period of eighty years from 1993.

## **6.0 Recommendation**

After considering the main outcomes of the above discussions, being:

- Alpine Energy's strong performance and efficiency
- The desire of consumers to continue with Trust ownership
- The vision of current trustees that ensures Alpine Energy contributes to the growth of South Canterbury

the Directors have discussed the matter of LineTrust South Canterbury and its ongoing role.

The following recommendation represents the Board's view:-

That the Directors of Alpine Energy recommend that LineTrust South Canterbury continues with its current shareholding in Alpine Energy Limited, and continues to support the Company's initiatives to invest in projects and developments which bring profitable returns to the company and economic growth to the region.

Directors  
Alpine Energy Limited

## **Attachment**

- LineTrust South Canterbury Review Terms of Reference (extract from the Trust Deed)



---

# LineTrust South Canterbury Review

## Terms of Reference

---

The Trust Deed requires the Directors to prepare a report considering proposals and available options for the future ownership of the shares owned by the Trust.

The Trust Deed gives the Trustees three (broad) options:

- retain the shares in the Trust; or
- dispose of a portion of the shares and retain the remainder of the Trust; or
- dispose of all of the shares

The report is to contain:

- (a) an analysis of the performance of the Company to the date of the report, together with a discussion of the advantages and disadvantages of continued Trust ownership;
- (b) if a distribution of shares is recommended, a draft Share Allocation Plan detailing:
  - the manner in which and the Consumers to whom the shares (if any) and assets constituting the Trust Fund are to be distributed and such shares and assets may be distributed to a greater or lesser extent to some or all of the Consumers;
  - the manner in which and the Consumers to whom the proceeds of the sale of shares (if any) received as a result of a disposal of shares are to be distributed and such proceeds may be distributed to a greater or lesser extent to some or all of the Consumers;
- (c) a summary of the professional advice (if any) obtained in respect of the preparation of the report.
- (d) a statement as to whether or not the directors have had regard to any views expressed by the public with respect to ownership.

The Trustees shall comment on the report to the Directors and upon completion of their review of the report, the Trustees shall make the report available to the public together with a summary of their comments. [‘available to the public’ means making the information available for inspection at any office of the Trust or any office of the Company or at any other place in the District on normal business hours on any business day, after giving 3 days notice of the place(s) and times in a newspaper].

The Trustees and the Directors shall in respect of the report and no later than 1 month after the date of the report, implement the Special Consultative Procedure set-out in Schedule 2 of the Trust Deed.

Following completion of the Special Consultative Procedure and not later than 6 months after the report date, The Trustees and the Directors shall meet and, after taking due account of the view expressed by the public and the Directors, the Trustees shall decide whether to:

- retain the shares in the Trust; or
- dispose of a portion of the shares and retain the remainder of the Trust; or
- dispose of all of the shares

If the shares are to be retained by the Trust, the Trustees shall notify the public by making the information available for inspection at any office of the Trust or any office of the Company or at any other place in the District on normal business hours on any business day, after giving 3 days notice of the place(s) and times in a newspaper.

If the shares or any portion of them are to be distributed, the Trustees shall prepare a Share Allocation Plan in terms of Schedule 3 of the Trust Deed.

# LINETRUST SOUTH CANTERBURY

## SCHEDULE 2

### SPECIAL CONSULTATIVE PROCEDURE

In respect of any provision of this Deed which requires the Trustees to implement a Special Consultative Procedure, the Trustees shall:

- (a) Place notice of the proposal before a meeting of the Trustees;
- (b) Give notice of the proposal to the Consumers in accordance with clause 13 of the Deed;
- (c) In every notice given under paragraph (b) of this Schedule, specify a period within which persons interested in the proposal may make submissions on the proposal to the Trustees and to the Directors of the Company;
- (d) Ensure that any person who makes written submissions on the proposal within the period specified in the notice given under paragraph (b) of this Schedule is given a reasonable opportunity to be heard by the Trustees;
- (e) Ensure that every meeting at which submissions are heard or at which the Trustees deliberate on the proposal are open to all Consumers;
- (f) Make all written submissions on the proposal available to the Consumers in accordance with clause 13 of the Deed; and
- (g) Ensure that the final decision in relation to the proposal is made at a meeting of the Trustees which is open to all Consumers.

The period specified pursuant to paragraph (c) above shall not be less than one month and no more than three months.

# LINETRUST SOUTH CANTERBURY

## SCHEDULE 3

### SHARE ALLOCATION

1. For the purposes of any share allocation the Trustees shall prepare a draft Share Allocation Plan providing for the distribution of the shares in the Company and any other assets held by the Trustees under this Deed.
2. Any draft Share Allocation Plan shall provide:
  - (a) for the manner in which and the Consumers to whom the shares (if any) and assets constituting the Trust Fund are to be distributed and such shares and assets may be distributed to a greater or lesser extent to some or all of the Consumers;
  - (b) for the manner in which and the Consumers to whom the proceeds of the sale of shares (if any) received as a result of a disposal of shares are to be distributed and such proceeds may be distributed to a greater or lesser extent to some or all of the Consumers.
3. The Trustees shall send a copy of the draft Share Allocation Plan to the Directors and shall give the Directors an opportunity to comment on the Share Allocation Plan.
4. The Trustee shall make the draft Share Allocation Plan available to the public in accordance with Clause 13 and within two months of publishing such a Plan the Trustee shall hold a postal vote of Consumers and the Share Allocation Plan shall not be implemented unless the majority of Consumers who vote on the question approve the distribution or sale. The Trustees may in their discretion determine the method and procedure for carrying out the postal vote provided that:
  - (a) the Trustees shall give written notice to all the Consumers of the postal vote and of the method or procedure adopted by the Trustees for carrying out the postal vote;
  - (b) a period of not less than 21 days shall be allowed between the date the Consumers are notified of the postal vote and the date by which the votes of the Consumers will be disallowed if not received by the Trustees;
  - (c) each Consumer shall be entitled to one vote;
  - (d) the Trustees shall give notice of the vote to Consumers through the post directed to the address of each Consumer in the records of the Trust, or if there are no such records, then the records of the Company; and
  - (e) the notice referred to in (d) above shall be deemed to have been received two days after the date of posting the notice by the Trustees.

5. If the postal vote confirming that the shares are to be distributed or sold in accordance with the Share Allocation Plan the Trustees shall be obliged to comply with the requirements of the Plan and ensure that the Share Allocation Plan is implemented unless the Trustees are unable to do so as a result of matters beyond the reasonable control of the Trustees.
6. The Trustees shall take all necessary steps to complete the distributions contemplated by the Share Allocation Plan including executing all necessary documentation to give effect to the transfer of the shares.