

AUCKLAND ENERGY CONSUMER TRUST
CHAIRMAN'S ADDRESS
FOR THE YEAR ENDED 30 JUNE 2011

Presented at the Annual Meeting of Beneficiaries, 31 October 2011

Good evening ladies and gentlemen, and welcome to the 2011 Annual Meeting of the Auckland Energy Consumer Trust.

I'm Warren Kyd, Chairman of the Trust and I'm pleased to introduce my fellow Trustees here tonight:

William Cairns, James Carmichael, and Karen Sherry.

James and Karen also serve as the Trust's representatives on the Vector Board of Directors.

We are pleased to have other Board members here as guests tonight:

Mr Michael Stiasny, Chairman of the Vector Board,

And Vector Directors: Hugh Fletcher, Alison Paterson, James Miller, and Bob Thompson.

We also welcome Simon Mackenzie, the CEO of Vector, and we especially appreciate your being here tonight Simon, given the demands on your time this past week dealing with the gas pipeline issue.

Before we continue with tonight's meeting, I want to take this opportunity to pay tribute to Vector for the way in which they have handled the problem on the Maui pipeline.

Vector's engineers have done magnificent work, around the clock, to repair the leak.

Simon, the board, executive and the communications team have also been outstanding in managing the issue and keeping people fully informed right throughout a very difficult week.

The efforts of Vector have been acknowledged by the government, and the Acting Minister of Energy and Resources, Hekia Parata, has thanked Vector for

working systematically, and safely, assessing and repairing the leak as quickly as possible.

We endorse those comments, and I would like to add that, in the way in which the company has handled this crisis, it makes you proud to be associated with Vector. So thank you all.

Now, to return to the business of tonight's meeting...

We welcome all our guests here tonight, including other members of Vector's management team:

Shane Sampson, Acting Chief Financial Officer

Helen Keir, Group Public Affairs Manager

Nicholas Albrecht, Government Relations Manager

David Tompkins, Group General Manager, Asset Investment

Anna Hirst, Investor Relations Manager

And welcome too, to our auditors, Chris Dixon and Vanessa Black from Grant Thornton.

Peter Guise from our accountants Staples Rodway.

Our legal advisor, David Bigio.

And our Executive Officer, Ian Ward; and our Secretary, Joy Stevens.

We extend a warm welcome to all our guests and to the beneficiaries of the Auckland Energy Consumer Trust who have come along this evening. Thank you all.

I will now commence the formal business of tonight's meeting. At the end of this agenda we invite questions from beneficiaries, so please hold any questions you have until then.

Apologies

Apologies have been received from:

Our Deputy Chairman, Michael Buczkowski who is overseas.

Prime Minister, the Right Honourable John Key

Hon Hekia Parata, Acting Minister of Energy

Hon Dr Wayne Mapp

Hon Maurice Williamson

Hon David Parker

Mr Len Brown, Mayor

Christine Fletcher, Councillor

Vector Directors: Tony Carter and Peter Bird.

AECT beneficiaries Dr Peter Tillman and Kelvin Enting.

Are there any further apologies? Thank you.

Minutes

The minutes of last year's meeting are included with the financial reports. The minutes were approved by Trustees on 31 August 2011.

They have been available on the AECT website since 22 September.

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. If you do have any questions or comments regarding the minutes, please hold those until the end of the agenda. Thank you.

Financial report

The Financial Statements have been approved by the Trustees and on 31 August 2011 our auditors, Grant Thornton, issued an Unqualified Audit Certificate.

Copies of the Financial Statements were posted on our website and are available here tonight. I will briefly comment on the key points of those statements:

Income received

Dividend Received \$m	2008	2009	2010	2011
Final	48.8	50.7	54.4	56.3
Interim	48.8	48.8	48.8	50.7
	_____	_____	_____	_____
	97.6	99.5	103.2	107.0
Interest received	2.7	2.0	1.3	1.4
	_____	_____	_____	_____
	100.3	101.5	104.5	108.4

The \$108 million income received by the Trust for the year ended 30 June 2011 comprised:

- \$56.3 million received in September 2010 from Vector's final dividend for the year ended 30 June 2010;
- \$50.7 million received in April 2011 from Vector's interim dividend for the year ended 30 June 2011.
- And \$1.4 million in interest from funds on deposit. Although interest rates remain low, Trust management has actively administered surplus funds throughout the year to maximise the interest income, and this has resulted in a small increase in interest received this year.

We are pleased to note the dividend income from our investment in Vector has increased again this year. This has enabled us to maintain the dividend amount paid to beneficiaries, despite increasing beneficiary numbers and a significant withholding tax obligation paid on behalf of beneficiaries.

Trust expenditure

EXPENDITURE	2009	2010	2011
DISTRIBUTION	\$1.06m	\$992,000	\$1.07m
OPERATIONS	\$2.06m	\$2.17m	\$2.00
PROJECTS	\$301,000	\$746,000	\$224,000
TOTAL	\$3.4m	\$3.9m	\$3.3m

The Trust continues to strictly control its operating costs. But each year there are variations in project costs.

Project costs in the financial year 2010 included election costs, which were not part of this year's costs.

And this year we incurred fewer costs regarding regulatory matters.

Distributions

Trust distributions	FY 2009	FY 2010	FY 2011	FY2012
Dividend total (\$m)	97.6	98.2	98.7	99.3
Number of beneficiaries	305,000	307,000	308,996	310,556
Net amount per beneficiary	\$320	\$320	\$320	\$320

The Trust has maintained the net dividend payment to beneficiaries at \$320 since financial year 2008.

In that time, beneficiary numbers have grown by 2 – 3,000 a year, adding between \$640,000 - \$960,000 in payments every year.

Taxation of Dividends Paid

Withholding tax on dividends paid also has an effect on the net dividend amount paid to beneficiaries.

When the Trust distributes a dividend it must attach a combination of tax credits to a total rate of 33%, made up of imputation credits and/or resident withholding tax (RWT).

When the corporate tax rate was 33%, imputation credits of 33% (representing tax paid by Vector) were attached to the dividends.

Since the corporate tax rate reduced to 30% from the 2008/2009 income year and then 28% from the 2011/2012 income year, the Trust has been required to top up the tax credits to 33% on dividends paid to the beneficiaries by deducting RWT.

While the dividend has increased from Vector, an amount of this is due to the reduced company tax rate, and the Trust has had to pay the additional tax on the dividend.

This adds an additional cost to the Trust as RWT is deducted from the dividend amount and this is paid to the Inland Revenue. This was at a rate of 3% when

the corporate tax rate was 30% and is now paid at 5% when the corporate tax rate is 28%.

Over the years this has amounted to:

	Per beneficiary	Cost to AECT
2008	\$6.76	\$2.1m
2009	\$14.00	\$4.3m
2010	\$14.00	\$4.3m
2011	\$18.59	\$5.8m

So, when the increased cost of the RWT and the increased numbers of beneficiaries are taken into account, maintaining the net dividend received by our beneficiaries of \$320.00 is a very good outcome.

And, where the beneficiary's personal tax rate is lower than 33%, they should be able to get a refund of the RWT by filing a personal income tax return. They may also be able to use any surplus imputation credits to reduce tax payable on other income.

Thus, when we distribute the dividend, we encourage beneficiaries to seek tax advice and, where appropriate, to file a tax return to ensure they are not disadvantaged.

Scope of the dividend

I would also like to comment here on the scope of the AECT dividend, because it is perhaps more significant than people realise.

Overall, the dividend provides a cash injection of around \$100 million directly into the Auckland economy each year, which is a sizeable contribution that benefits the whole region.

We believe it is also the largest direct payment project in the country.

2010 comparisons		
TELECOM	\$460 million	41,000 shareholders
WINZ		338,000 benefits
AECT	\$98.7 million	309,000 dividends 290,000 people / organisations

Other organisations may pay out more money. For instance, Telecom last year paid out \$460 million. But only to 41,000 shareholders.

[Source: NZX.com]

Our \$98 million was made up of 309,000 payments to 290,000 different people and organisations.

The only other organisation that comes close to making that many payments is WINZ. In 2010, around 338,000 working age people received WINZ benefits.

[Source: National Benefit Factsheet Sept 2010, MSD.govt.nz]

So that gives you a good idea of the size and scale of the AECT dividend. There is nothing else quite like it, anywhere in the country.

And it is worth noting that we do this with a very small team of people who come together at only dividend time each year and work in a very tight timeframe to ensure every rightful Trust beneficiary receives their dividend.

Investment in Vector

The money for the AECT dividend comes, of course, from the Trust's 75.4% investment in Vector.

This investment at cost is \$300 million.

At balance date, Vector's share price was \$2.54, which meant our shareholding was worth around \$1.9 billion.

It is currently trading around the same price despite global market conditions. In fact, Vector is one of the better performers on the NZX.

Vector has consistently placed in the top quartile of NZX 50 companies for total shareholder returns over a 1, 3 and 5 year basis.

TOTAL SHAREHOLDER RETURN (TSR) COMPARISONS TO NZX50	
5 year TSR	Vector #6 / 47
3 year TSR	Vector #9 / 47
1 year TSR	Vector #9 / 50
Vector has consistently placed in the top quartile of NZX50 companies over a 1, 3 and 5 year basis	

Overall, the market recognises that Vector is a strong infrastructure company. It is a good defensive stock, with a good dividend yield and stable ownership and management.

We are confident in Vector's future, and congratulate the company on their strong performance this past year.

Fibre

However, we also share Vector's disappointment in the government's decision regarding fibre.

Along with Vector, the Trust worked long and hard to put the case for Vector to win the contract for fibre in Auckland. The Trust believes Vector's case was the best. But obviously Crown Fibre Holdings thought differently.

While we were disappointed by the decision, we have confidence that there are still good opportunities for Vector's existing fibre network.

Regulation

The other area of considerable activity in the past year has been in the regulatory domain.

During the year Vector, and the Trust, have taken every viable option to achieve a sensible outcome from the Commerce Commission's re-set of the company's pricing.

The Trust has a responsibility to be involved in this regulatory activity because the regulatory environment affects the value of our ownership in the company. It affects our beneficiaries, and their dividend. And it affects consumers.

So we take specialist advice and make submissions where appropriate that protect our investment in Vector, and also represent the voice of consumers.

In July this year, the Commerce Commission announced its draft determination on the company's pricing for its electricity networks.

Like Vector, we were extremely disappointed in this draft determination, and we share Vector's concerns that the Commerce Commission's determination will stifle the company's ability to invest and innovate.

We also agree with Vector's view that the draft determination will not deliver long term benefits to consumers, as it removes incentives to invest in critical infrastructure for the future.

So we fully support the company's decision to take a legal appeal against this draft determination. And we will continue to work for a resolution that delivers a more robust and balanced regulatory framework for both the short and long term.

In August this year, the appeal process began with a Judicial Review at the High Court which focused on the process around setting the starting price. It was pleasing that the Judge ruled in Vector's favour.

The Commission has since announced it will appeal this decision.

We find this disappointing and would urge the commission to review how regulatory certainty can be achieved in an efficient manner, without re-commencing an extremely costly and lengthy process.

Overhead Improvement Programme

Moving on to the overhead improvement programme:

During the year, Vector completed the major undergrounding project in Manurewa, and several smaller projects in:

- Bel Air Drive, Onehunga
- Basque Road, Newton
- Benbow and Dingle Streets, St Heliers
- Westwood Terrace, St Mary's Bay
- And Ryle, Gunson, Georgina and Wood Streets, Freeman's Bay.

However, in the past 2 months, undergrounding has been put on hold pending a review of a number of key factors. Those factors are:

Auckland's fibre build project by Chorus.

The success of the undergrounding programme has relied on participation from 3 parties:

Vector, Chorus, and the councils in the AECT district.

The participation of Chorus and the councils have made the \$12 million that Vector invests go much further than we could do alone.

It also means the work in each street has been done as a 'dig once' programme.

This means **all** poles and overhead lines – including phone lines – are removed.

However, due the government's ultra fast broadband project, Chorus – the Telecom utility business – is no longer actively involved in the programme.

Without Chorus, it means that telephone poles and lines would potentially still be all down the street even though the power lines were underground.



Electricity lines underground, but telephone poles and lines remain

So, with this change alone, the dig once undergrounding programme cannot continue as it did before.

In addition, other problems have also emerged recently that affect the undergrounding programme.

Effects of Christchurch earthquake

The second reason undergrounding is on hold relates to the Christchurch earthquake, and what we have learnt from this tragic event.

In regard to power, the Christchurch lines company, Orion, suffered much more damage on its underground network than on its overhead lines.

- Damage on underground networks is much harder to locate.
- It takes longer to fix
- Orion found it took at least 12 hours to fix each fault on their underground network, and they had more 1,000 to deal with.
- On their overhead lines, there was less damage – mainly cracked insulators and poles affected by liquefaction – and the overhead network was much easier and quicker to repair.

This risk to the underground network is clearly something that we and Vector need to consider carefully.

While the visual benefits of undergrounding are popular, it would be foolhardy to overlook the lessons learnt from Christchurch.

Insurance issues

As has been played out in the media recently, there is also the issue of insurance.

Getting insurance cover for underground assets has proved extremely difficult since the Christchurch earthquake.

This is a matter that Vector is investigating and needs to be resolved before we continue any further undergrounding.

So, for all these reasons, the undergrounding programme has been put on hold while we and Vector work through the issues and find the best solutions.

We don't have the answers yet, but we are working on it.

Overhead Improvement Programme

Meanwhile, I do want to point out that undergrounding is part of a bigger programme, the Overhead Improvement Programme, and other work in this area is continuing.

One area of this work is the removal of transformers from power poles.

As you'll see from the photo, removing these will be a distinct improvement to the street.



That may be small compensation compared to the visual benefits of undergrounding.

But we must accept that there are problems with undergrounding. We know about them now. We don't have the answers yet. But we are working on it.

ETNZ

I would now like to mention the Trust's affiliation with other organisations.

The AECT continues to be an active member of ETNZ: the association of energy trusts in New Zealand.

The ETNZ represents 22 energy trusts around the country and is a valuable forum for exchanging information and experience specific to the role of consumer trusts.

The AECT is the largest Trust in the association, with more than 300,000 beneficiaries and our support includes secretariat and executive activities.

Trustee, Karen Sherry is currently Chair of the ETNZ, and fellow Trustee James Carmichael sits on the ETNZ executive.

And 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.

Trustee meetings

During the year 14 full meetings of the Trust were held, and 15 subcommittee meetings were held.

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

With his background in finance, William Cairns is Chair of the Finance and Risk Subcommittee.

Karen Sherry heads the Regulation and Strategy Subcommittee; and James Carmichael heads the Communications and Dividend Subcommittee.

Trustees Meeting Attendances : 1 July 2010 – 30 June 2011

	Full Trust	Regulation and Strategy Subcommittee	Communications and Dividend Subcommittee	Finance and Risk Subcommittee
Warren Kyd	14	5	3	4
Michael Buczkowski	14	4	3	4
William Cairns	14	7	4	4
James Carmichael	14	7	4	4
Karen Sherry	14	7	4	4

Of course, much of our work takes place outside these meetings as Trustees research and analyse the various issues facing the company and the Trust, so

that we are well briefed and prepared to make the necessary decisions as they are put before our meetings.

It is also appropriate to note here that Trustee remuneration did not increase during this year, and Trustee fees have in fact been frozen since 2008. There is no intention to review Trustee fees in the near future.

Acknowledgements

Ladies and gentlemen, that concludes this summary of the year's activities for the AECT.

I thank everyone who has assisted and supported us this year.

In particular, I thank our Executive Officer, Ian Ward, and our Secretary, Joy Stevens, for their professional expertise and management of the Trust services.

We also appreciate the professional assistance we receive from other key people, including:

- Our legal advisor, David Bigio
- Our accountants, Staples Rodway
- Our auditors, Grant Thornton
- John Yeabsley at NZIER who assists us on regulatory matters
- Our advertising agency, Y&R
- And our dividend team which includes Kath Bolton, Mike Fox and staff at Computershare and Vector.

Thank you all.

To the Board of Vector, Simon Mackenzie and all your people at Vector: thank you for the results you have achieved this year.

There have been some disappointments – fibre and the Commerce Commission – but those aside, the company has once again delivered a fine result and we appreciate the effort this takes.

Finally, I thank our beneficiaries who have taken the time to attend tonight's meeting. We greatly appreciate your continued interest and support.

Now, I ask you to take part in the formal part of tonight's meeting.

Appointment of auditors

It is now time to appoint the Trust's auditors and to authorise that their remuneration be fixed by the Trust.

The Trustees are recommending that Grant Thornton be again appointed as auditors for the Trust. Grant Thornton's fees for this year's work were \$33,930.

Do I have a mover and seconder that Grant Thornton be re-appointed as auditors for the Trust...

Is there any discussion?

All those in favour that Grant Thornton be appointed auditors of the AECT for the coming year please say AYE.

Those against, please say NO.

Thank you, I declare the motion carried.

Remuneration of auditors

We now move to the second recommendation, the fixing of the remuneration of the auditor. The recommendation is:

That in accordance with section 158C (3) of the Electricity Act 1992, the Trust be authorised to fix the fees and expenses of the auditors for the ensuing year.

Do we have a mover and seconder?

Thank you.

Is there any discussion?

Thank you.

All those in favour that the Trust be authorised to fix the fees and expenses of the auditors for the ensuing year please say AYE.

Those against, please say NO.

Thank you, I declare the motion carried.

Comments and questions

Thank you ladies and gentlemen.

We now invite beneficiaries of the Trust to raise any questions or make any comments about the Trust....

Thank you ladies and gentlemen. That concludes this year's annual meeting of the Auckland Energy Consumer Trust. The Trustees now invite you to join them for tea and coffee.

Thank you.