

AUCKLAND ENERGY CONSUMER TRUST

CHAIRMAN'S ADDRESS

FOR THE YEAR ENDED 30 JUNE 2008

Presented to the Annual Meeting of Beneficiaries

7.00pm Thursday 30 October 2008

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

This has been a very good year for the Trust. There has been a solid result from our majority shareholding in Vector, and that's reflected in the dividend paid to beneficiaries.

The \$320 dividend paid to beneficiaries in September 2007 was a record amount. And it went to more beneficiaries than ever before. Outside the scope of this review, it is also noted that this year's dividend payment, in September 2008, sustained the payment of \$320 to each beneficiary despite being paid to 3,000 more people than the previous year.

Each year the dividend is paid to more than 300,000 beneficiaries, and that number is growing as population grows in the Trust district. We understand there is no other dividend payment in New Zealand, by any other energy trust or, in fact, by any corporate organisation, that distributes a dividend to so many people.

This is a considerable responsibility, and one we take very seriously. We also take seriously our responsibility for the future of the Trust and our investment in Vector. As investment and financial market conditions change, we are very mindful of the need for prudent financial cost management by the executive and Trustees. This is particularly so in these turbulent financial times.

AECT Financial Review

The audited financial statements of the Auckland Energy Consumer Trust for the year ended 30 June 2008 were prepared by the Trust's accounting company, Staples Rodway.

During the year ended 30th June 2008 the Trust received a total of \$97.6m in dividends from Vector. This comprised of \$48.8 received in September 2007 being the Trusts share of the Vector final dividend for the year ended 30th June 2007 and \$48.8m in April 2008. This latter receipt was the Trusts share of the Vector interim dividend for the year ended 30th June 2008.

The Trust also benefited from higher interest rates and increased its interest income from funds held on deposit. Interest income increased from \$2.4m in the year to 30th June 2007 to \$2.7m in the year to 30th June 2008.

Since balance date interest rates have reduced and it is very unlikely the interest income achieved in 2008 will be achieved in the year ending 30th June 2009.

The total expenditure incurred by the Trust in the year to 30th June 2008 was \$4.8m. Administration costs represented 47% of the total and 53% related to the governance of the Trust's shareholding in Vector Limited.

The increase in costs over the previous year is principally due to four factors:

- a) A decision taken to increase the communication with beneficiaries during the year on Trust activities

- b) Increased accountancy costs due to the need to implement the IFRS accounting reporting requirements.
- c) Costs incurred on regulatory matters particularly around the Commerce Act and the Commerce Amendment Act
- d) Costs incurred in respect of Royal Commission on Auckland governance to prepare and make submissions to protect the interests of beneficiaries.

Costs summary

The key activities of the year – particularly the submissions to key bodies and the communications programme, as well as the dividend distribution itself - have been highly successful. And they have been the key elements of the \$4.8 million expenditure this year.

All of this expenditure was required to run the Trust and to protect it for the future. While it is higher than the previous year, it was necessary and effective. But it should also be put in perspective, as Trustee, Shale Chambers, has done, noting:

“The operational costs of running the Trust amount to only two-one hundredths of one percent of the value of the trust fund. If any professional trustee is willing to manage a trust fund for a lesser percentage cost then we would be extremely surprised.”

It should also be noted that it is usual for professional fund managers to charge annual management fees of between 0.5% and 4% of a fund’s asset value. In the case of the AECT, this would amount to annual fees of between \$8 million and \$24 million.¹

In comparison, the Trust costs are about half the lowest of those. And that reflects the Trustees commitment to doing what is needed to run and protect the Trust, while keeping costs controlled and effective.

Importantly, in the current difficult economic and financial climate, Trustees are closely reviewing and tracking costs for the current year and are aiming to keep costs this year to within \$3.9 million. Trustees are acutely aware of the very real economic pressures faced by our beneficiaries and want to ensure that our stewardship of the Trust through these times is strong, responsive and protective of our beneficiaries interests.

For the period under review we note that this has been an active and strong year for the Trust, which is reflected in the sustained value of the annual dividend paid to income beneficiaries.

Investment in Vector

The Trust’s investment in Vector Limited at cost was \$300m.

Vector’s Market Capitalisation at 29 October 2008 was \$2,013,529,395 (\$2.01 billion)

The AECT's shareholding based on the Vector share price of \$2.20 at 29 October 2008 was \$1,517,020,000 (\$1.5 billion).

Clearly the value of the Trust’s shareholding has grown appreciably. Vector is now one of New Zealand’s top 15 companies by sharemarket capitalisation.

Key role as majority shareholder

One of our key roles as majority shareholder in Vector is to review and approve all major transactions undertaken by the company and, this past year, we were active in considering and ultimately approving the sale of Vector’s Wellington electricity network.

The Trust’s support for that transaction should not be misunderstood. While it involved one of Vector’s electricity networks, in no way does it relate to our commitment to the Auckland network. The Trust is totally committed to the continued ownership of the Auckland network, and that is not about to change.

In the year under review we were also active in monitoring and making submissions regarding the Commerce Commission’s acceptance of the company’s administrative settlement. And further

submissions were made on the Commerce Amendment Bill and on proposed regulations to the gas industry, both of which affect the company's business.

We were also active this past year on behalf of our beneficiaries in making submissions to the Royal Commission of Inquiry on Auckland Governance.

Submissions to Royal Commission of Inquiry on Auckland Governance.

The Trust became involved in the process for two reasons. First, the Trust supports the aims of the Royal Commission as a steward for crucial Auckland infrastructure. Secondly, as Trustees we had a legal obligation to respond to any proposals put to the Commission which put our beneficiaries' interests at risk.

In years past the Auckland, Manukau and Papkura Councils had expressed interest in bringing forward the termination date of the Trust and distributing the assets of the Trust to the respective Councils. These Councils do not inherit the assets of the Trust until the Trust terminates in 2073 - if those Councils are still in existence.

The Trust became aware of draft submissions prepared by Auckland and Manukau Cities for the Royal Commission. These were designed to engage the Commission in this discussion and obtain a recommendation from the Commission that the Trust be wound up early.

The Trustees successfully convinced the Councils of Auckland and Manukau to have that proposal removed from their respective submissions.

The Trustees also became aware of a number of submissions which simply did not understand the structure or the role of the Trust. Some of these submitters appeared to believe that Vector is already owned by the Councils. The Trustees made sure that the Commission was not under any misapprehension about the benefit and significance of the Trust structure to the beneficiaries.

The Commission also sought our assistance to understand what, if any, impact changes the Commission may make to the structure of local councils will have on the Trust, given that the Auckland, Manukau and Papakura Councils are potential beneficiaries of the Trust.

Our submissions were based on these facts:

- The AECT was set up in 1993, to run until 2073.
- It is not part of local government. It is a separate entity, and was set up on behalf of energy consumers.
- It is the Trust's duty to preserve and protect the interests of those consumers who are the Trust's current and future beneficiaries.
- The Trust's catchment area does not precisely coincide with local authority boundaries. The Trust Deed envisages that, over the life of the Trust, there will be changes to local councils within the Trust's area because it provides for the Trust's assets to go to the local bodies that are in place at the time the Trust is set to wind up in 2073. That is why the current Councils are potential beneficiaries only.

Importantly we advised the Commission that changes to local bodies that may occur as a result of the Royal Commission's findings will have no impact upon the Trust or our current and future income beneficiaries who receive their dividend each year.

Trustees – and anyone who is involved in working for the Trust – are fully committed to making sure the Trust does continue for the duration of its Deed. We are legally bound and highly motivated to protect the Trust not just for today's beneficiaries, but for the generations to come.

In the case of the Royal Commission, we took timely and relevant action against the challenges that would have put the future income for beneficiaries at risk.

This was a serious threat to the interests of the beneficiaries, and we took it seriously. This involved seeking legal and commercial expert advice, which has added to our costs this year.

Communications programme

One of the notable activities of the Trust this year was the communications programme which commenced in June 2007. The communications programme is based on research that showed:

- Even before the communications programme began, more than 90% of people surveyed thought the AECT should promote what it does and who it is.
- Now that the programme is underway, that figure – 92% - has remained constant, even after the most recent set of advertising and communications.
- In May 2007, prior to the communications programme, 58% of people surveyed knew that a dividend existed, but a **mere 4.4%** knew that the AECT paid it.
- A little over one year later, after two communications campaigns, that awareness has increased dramatically, with 72% of people surveyed aware of the dividend and a massive jump to 40% knowing that it is paid by the AECT.

Awareness is doubtless even higher now, following the recent dividend payment and communications. This awareness matters because the Trust is a most valuable asset for its beneficiaries, but it can be threatened if people are not aware of its existence or role.

The communications programme is succeeding in giving timely and relevant information to beneficiaries so they understand the value and role of their Trust.

The communications programme also ensures beneficiaries are given the choice in how their dividend is paid. That aspect of the communications programme has generated an overwhelming response with:

- 108,363 replies from 304,000 mailings in June 2007
- 87,000 replies in June 2008. It must be noted that this was year two of the update programme, and people did not need to reply if their information was correct.

On all measures, those are outstanding response rates.

From those replies, people have told us they want their dividend paid in these ways:

- 126,665 paid by direct credit to their bank account
- 38,843 paid by credit to their power bill
- and the remaining 139,388 receiving payment by cheque.

As these responses show, a huge number of beneficiaries are actively responding to the communications programme.

And, as the research shows, our communications are ensuring that beneficiaries are better informed about their Trust and how it is working for them now and in the future.

Dividend project

The dividend project is a major undertaking, given the size and scope of the distribution, and it involves careful planning and logistics. The Trust appreciates the services of a dedicated team of people from a number of organisations, including Vector, who provide

- the project management to ensure the process runs correctly,
- the database services that identify each beneficiary,
- the financial management and mailhouse services that ensures the dividend is received by each beneficiary and is accounted for,
- the banking services which manages all the transactions,
- the call centre which handles thousands of calls regarding the dividend,
- the service team that follows up beneficiary queries
- and the communications team that ensures beneficiaries know about the dividend.

Undergrounding

Another important benefit of the Trust is the undergrounding programme and the agreement the Trust has with Vector in which more than \$10.5 million is invested in undergrounding in the Trust district every year.

It must be noted that while \$10.5 million is a significant amount, it can only go so far each year. In deciding which neighbourhoods are priority for undergrounding, the main factors taken into consideration are:

- Whether the existing overhead lines in the area are due for replacement
- Whether the overhead lines in the area have a history of faults
- The number of customers who will benefit from undergrounding in that area
- Whether other utility works are planned for the area which could be carried out as part of the same excavation process

Therefore Vector has to make careful decisions about the annual project, and the Trust supports those decisions.

To date, the undergrounding programme has resulted in 127 projects being completed, with 93km of streets across the Trust district being undergrounded. In the year under review, the undergrounding programme:

- Completed the Orakei project: 6km undergrounded over 13 streets
- Started the Sandringham project which will cover 9.6km over 26 streets
- Completed 7 small projects in:
 - Great North Rd, Grey Lynn
 - Cleveland Rd, Parnell
 - West End Rd, Herne Bay
 - Carrington Rd, Mt. Albert
 - Rangitoto Rd, Remuera
 - Victoria Ave, Remuera
 - Ash St, Avondale

The 'dig once' strategy continues to be the focus of the projects, and Vector is to be congratulated for achieving excellent customer satisfaction scores averaging 87% amongst residents in the project areas.

Acknowledgements

The Trustees extend thanks to all who have contributed to the Trust's result this year.

We appreciate the support and expertise of our legal advisor, David Bigio, and the consultants Chen Palmer; Harnos Horton Lusk; Saha International and ABN Amro, who have provided expert services this past year.

And, most importantly, we thank our small but highly effective executive team of two, Ian Ward and Joy Stevens.

Ian joined us as Executive Officer this year and we greatly appreciate his general management skills and financial management experience.

Our Office Administrator, Joy Stevens, has once again provided sterling service, often outside normal working hours to accommodate early morning or evening meetings of the Trustees.

Thanks also go to my fellow Trustees for their hard work and dedication throughout the year. It has been a year of challenges but your Trustees have always risen to the occasion with due care and diligence.

Trustees

The current Trustees are Chairman, Warren Kyd, Deputy Chairman, Michael Buczkowski, and Trustees James Carmichael, Shale Chambers and Karen Sherry.

Two of the Trustees are also directors on the Vector Board. For the past two years, Shale Chambers and Karen Sherry have had that responsibility and have been very good representatives for our beneficiaries, the Trust and Vector.

As those positions were due for re-election in October this year, the Trust nominated Karen Sherry and James Carmichael as the Trustee Directors, who were then elected at the Vector AGM. James Carmichael has been a Trustee since 2006 and will bring his significant commercial experience in major international infrastructure and energy companies to the Vector Board.

The Trust extends thanks to Shale Chambers for his contribution to the Board during his time as Director.

Trustees Meeting Attendance: Year ended 30 June 2008

	Full Trust	Regulation & Strategy
Warren Kyd	14	4
Michael Buczkowski	13	3
Shale Chambers	13	6
Karen Sherry	13	6
James Carmichael	14	6

In addition, Trustees attended two strategy workshops over a period of 3 days, and appeared before the Commerce Commission on two occasions.

Firstly in support of the Trust's submission regarding the Review of Part IV of the Commerce Act, secondly to support the Trust's submission on the Gas Authorisation conference.

In April this year, Trustees appeared before the Commissioners in support of our submission to the Royal Commission of Inquiry on Auckland Governance. Trustees also attended several national energy conferences during the year including two held by Energy Trusts of NZ. Karen Sherry is Deputy Chair of ETNZ and during the year James Carmichael was elected to the executive committee

Appointment of Auditors

The auditing position was put out for tender in May 2008. The process was independently managed by the Trust accountants, Staples Rodway.

Four firms with the appropriate experience and without conflicts of interest were invited to tender. Following a robust evaluation process Staples Rodway recommended to the Trustees that Grant Thornton be re-appointed as auditors for the Trust. Their fees for the past year were \$31,500.

The Trustees have recommended to beneficiaries that Grant Thornton be re-appointed as auditors for the Trust.

In summary

By all measures, the Trust has been a phenomenal success since it was set up in 1993. It provides strong, stable ownership for Vector and this has enabled to Vector to become one of the largest, most successful commercial organisations in New Zealand.

The AECT is also the largest consumer energy trust in the country, by a wide margin, with more than 300,000 beneficiaries, and that number grows each year.

This was not an easy year for lines companies to make a good profit because it was a warm year with reduced demand and some shortages of electricity. We believe Vector, which is majority Trust owned,

deserves credit for reducing its costs and improving its efficiency to deliver a good result and maintain the dividend.

It is clear that the AECT is an outstanding success and a most valuable asset for the people of Auckland, Manukau and northern Papakura today, and for the generations to come.

That's a view shared by beneficiaries of all ages, as can be seen in the Your Stories section of our website at www.aect.co.nz

We thank all the Trust's beneficiaries who take an active interest in the Trust's performance. We welcome your interest and thank you for your support of the Trust's work.

Thank you.

Warren Kyd

Chairman

Auckland Energy Consumer Trust

October 2008.