

Timaru District Council  
Consultation Document

**Proposal for Timaru District Holdings  
Limited to sell its 47.5% interest in  
Alpine Energy Limited**



## Purpose of this Consultation Document

This Consultation Document seeks public feedback on the proposal by Timaru District Holdings Limited (TDHL), (Timaru District Council's company which looks after our commercial assets) to sell its shareholding in Alpine Energy Limited and reinvest sale funds in a more diversified investment portfolio.

As the consultation involves an amendment to the Timaru District Council Long Term Plan 2018-28, it is carried out under Section 93A of the Local Government Act 2002, which means a Consultation Document must be prepared and the special consultative procedure used for the consultation. The Special Consultative Procedure (SCP) gives the public an opportunity to make submissions and provide feedback on the proposal. Once the submission period closes, Council will conduct hearings for anyone who wishes to speak to their submissions.

# Mayor and Chief Executive's Introduction





# Mayor and Chief Executive's Introduction

This Consultation Document deals with an important decision for the prosperity and development of the Timaru District now and for generations to come. We would welcome your views and advice on what is proposed.

The Council invites you to consider carefully something important and quite unique, which is:

*Should Timaru District Holdings Limited (TDHL) which is the company that looks after Timaru District Council's commercial assets, sell its 47.5% share in Alpine Energy Limited (Alpine Energy).*

*Alpine Energy is the local lines company that distributes power to the households and businesses across the District.*

Why are we seeking your views on this?

TDHL has a lot of money tied up in Alpine Energy, and on the basis of professional advice we believe that it is worth at least \$110 million. We think that the community will get more benefit from that money if some of it is used to repay Council debt and the balance of the money invested in other growth assets. To do that we need to sell our investment in Alpine Energy.

We set out some great projects in our latest Long Term Plan, but there is always more we could do, and so it is important that TDHL's commercial assets make as much money as they safely can. So, we want to present to you an opportunity to realise the value of the asset and use the funds to contribute to the prosperity of the District now and into the future.

As part of this proposal:

- some of the sale proceeds from this transaction would be used to repay \$22.1M of external Council debt. This will also reduce the Council's interest costs by \$1.1 million per year and with compound interest after 10 years it would equal approximately \$13.3 million of additional money in our Reserve Funds; and

- the balance of the funds, which is approximately \$88 million, would be put into a range of investments which would earn income for TDHL

We want you to consider the proposal as it means that TDHL and the Council will be benefitting from the money now and into the future, and TDHL and Council believe we can earn better financial returns than are currently earned by holding the investment in Alpine Energy. This document sets out why we proposing it and answers questions you and the community may have.

We invite you to read on, consider this very important issue for the long term wealth of our community. We would really value your views and advice on whether you think it is a good idea to sell the Alpine Energy shares and use the money to repay debt and reinvest the funds in a range of income producing investments.

Ngā mihi nui

Damon Odey, Mayor

Bede Carran, Chief Executive

In a nutshell -  
What is the Council  
consulting on?

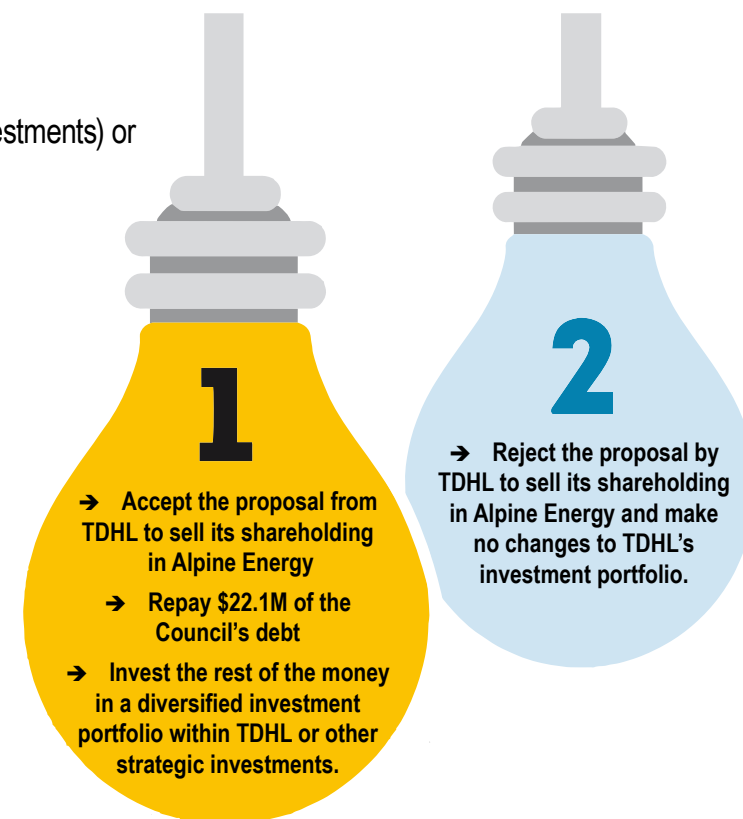


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## In a nutshell - What is the Council consulting on?

The Council's objective in presenting this Consultation Document is to enable TDHL to operate in a financially prudent manner to maximise returns to residents and ratepayers, while appropriately managing risk.

- Should the Council allow TDHL to sell all of its shares in Alpine Energy and use the sale proceeds to:
  - repay \$22.1M of Council debt;
  - use the rest of the sale funds to invest in a more diversified investment portfolio (i.e. a wider spread of investments) or other strategic investments.



# Background





# Background

# 03

## 3.1 Who is Timaru District Holdings Limited (TDHL)?

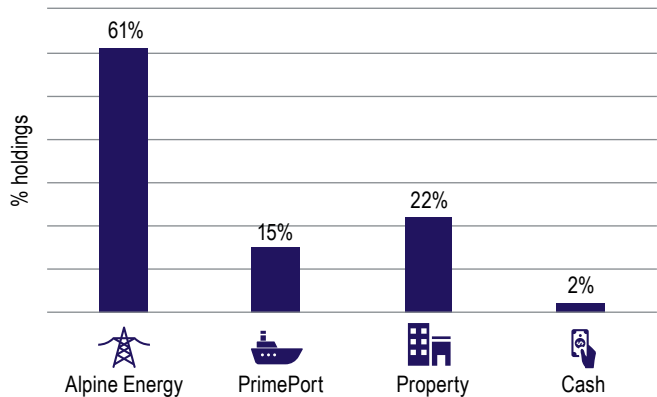
TDHL is a wholly owned subsidiary of the Timaru District Council. This means the Council owns TDHL.

TDHL has five directors, three of whom are elected members of the Timaru District Council and two external directors.

### 3.11 What assets and investments does TDHL have?

TDHL owns the following assets (see graph):

- Council's investments in Alpine Energy (TDHL owns 47.5% of Alpine Energy)
- Council's investments in PrimePort Timaru Limited (TDHL owns 50% of PrimePort Timaru).
- A portfolio of investment properties surrounding the port in Timaru
- Some other land and buildings in Timaru



TDHL's holding in Alpine Energy dwarfs all its other investments, representing more than 60% of its total assets. Having such a large proportion of its funds invested in a single company does not offer the reduction in risk that would come from having a more diverse range of investments.

The shareholding in Alpine Energy is a single asset with a significant regulated component and therefore capped return on investment.

An electricity distribution company is a large and complex investment and would potentially be a better fit as part of a larger infrastructure investment group, rather than a major part of an overall modest fund.

As well as better management of the business risks and a potential increase in income over time, the sale of the TDHL shares in Alpine Energy is being proposed as a way to provide the Council with increased options for future growth initiatives, generating long term wealth for the Community and a source of non-rates revenue. This can be part of the funding for future Council projects that would otherwise require greater borrowings or rate increases.

The Council's investments in TDHL are regarded as significant under the Council's Significance and Engagement Policy. It is the Alpine Energy portion of TDHL's investments that is proposed for sale.

## 3.2 Who is Alpine Energy and how did TDHL end up with shares in it?

Alpine Energy is a local electricity distributor. It owns and operates all the local lines that link homes and businesses to the National Grid.

Alpine Energy was formed as result of the electricity reforms in the 1980s and 1990s and is the result of a merger between the Timaru District Council's Municipal Electricity Department and the South Canterbury Electric Power Board, which was owned by a local trust.

This combined the electricity interests of the South Canterbury Region and, to reflect the former ownership of the company, Timaru District Council was allocated 47.5% of the Alpine Energy shares. The rest of the shares were allocated to Line Trust South Canterbury (40% shareholding which is community owned), Waimate District Council (7.54% shareholding) and Mackenzie District Council (4.96% shareholding).

Alpine Energy is one of 29 local electricity distribution companies throughout New Zealand and these are owned by a mixture of private businesses, local Community trusts and local authorities.

Alpine supplies energy to your home but does not bill you directly. The bill you get from your power company (for example Contact, Mercury, TrustPower or Nova Energy) contains an amount that is paid to Alpine Energy to cover getting power to your home or business.



Why should the  
Council sell the  
TDHL investment  
in Alpine Energy?



# Why should the Council sell the TDHL investment in Alpine Energy?

The TDHL directors have considered the best way to maximise the income from its investments and how risk can be reduced with the assets that generate that income. The TDHL directors believe that having so much of its money tied up in Alpine Energy when it doesn't control Alpine Energy has a lot of risk attached to it.

In addition, how Alpine Energy sets its lines charges is controlled by a government regulator (the Commerce Commission). While this stops the prices being charged to consumers from getting too high, it also means that it caps how much money can be made from Alpine Energy's lines business.

By selling its shares in Alpine Energy, the TDHL directors believe they can make better use of the money. As a result, the TDHL directors are proposing a sale of all of its 47.5% shareholding in Alpine Energy.

The reasons the Council proposes to support the proposed sale are outlined below:

1. The current investment in Alpine Energy Limited is a big proportion of TDHL's assets which limits how much TDHL can do with such a large amount of money

Over 60% of TDHL total assets are invested in Alpine Energy. It is not easy for TDHL to take its money out of Alpine Energy. TDHL receives a dividend (\$4.7 million in cash) on an investment of approximately \$110 million. TDHL can only access this investment by selling shares. If TDHL sells its shares it can make better use of those funds and is proposing repaying \$22.1 million of Council debt (which saves Council \$1.1 million per year in interest costs), and investing the rest of the money in a diversified investment portfolio to earn investment income (See Section 8 for scenarios of how much income TDHL could make).

2. TDHL has a lot of money invested in Alpine Energy, and despite being its single largest shareholder it has limited control over the decisions made by Alpine Energy

TDHL owns 47.5% of Alpine Energy and is its single largest shareholder. A business is controlled by its Board of Directors and TDHL has the right to appoint only 2 of the 5 directors who run Alpine Energy. This means that TDHL has limited ability and opportunity to influence the decisions of Alpine Energy and the direction it takes. Decisions may be made by the majority of directors of Alpine Energy that may not be in the best interests of TDHL.

3. Technology can disrupt how Alpine Energy will operate in future and that may limit its potential for growth and therefore how much money TDHL can make from it

As with lots of businesses, new technologies are expected to disrupt (or change) their existing operations and Alpine Energy is no different. The new technologies may bring opportunity, but also bring risks. The rapidly increasing developments in solar energy, electric vehicles, advancing battery storage capability and on-farm generation are examples of disruptive technologies that are expected to impact businesses like Alpine Energy.

TDHL expects that Alpine Energy will need to become a diversified energy business in order to adapt to the rapidly changing energy sector. The investments in Infratec and SmartCo are examples of this diversification. As Alpine Energy expands its business into different energy businesses it becomes riskier to TDHL.

TDHL is limited in the amount of knowledge, skills or experience it can bring to Alpine Energy particularly as it moves into alternative energy businesses.

This sort of investment is potentially a better fit for a larger infrastructure company or one which has specific experience and skills in the energy sector and alternative energy businesses. This is because they can use their size to bring in the specific expertise and experience to run different energy businesses.

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## 4. There is considerable interest from potential investors in businesses like Alpine Energy

It is important to know that Alpine Energy is a good business, and so there is a strong interest in the marketplace for the TDHL share of Alpine Energy. These investors are interested because this is what they focus on, so they have the skills and experience necessary to make the decisions that will add value. The challenge for TDHL is that it has a lot of money invested in Alpine Energy it can't control. From a business point of view there are better investments for TDHL and by extension the Council and community.

## 5. Alpine Energy's small geographic concentration presents risks

Alpine Energy operates only in the South Canterbury network area and therefore its lines business (the majority of its business) is concentrated in one geographical region. This presents risk.

Although line charges are regulated, the income of Alpine Energy reflects the amount of electricity passing through the distribution network. The greater the amount of electricity passing through the network, the higher the income received by TDHL.

Usage by commercial and residential customers is generally stable. Usage from agricultural users (primarily irrigators) has been variable given its heavy dependency on weather conditions especially wet summers where irrigation is low or alternatively snow damage. In dry years where the irrigation storage ponds are high, Alpine Energy can have a good year. As Alpine Energy operates in a small geographical area, weather conditions across the network are very similar and can have a big impact on its performance. This means if there is a low demand for irrigation that is the case for a lot of the network and this affects returns.

TDHL thinks it preferable if its financial returns are not so dependent on the weather of the South Canterbury region.

The issue of geographic concentration is less of an issue for a large investor as it will have multiple investments across multiple geographic areas which means it can spread its risk.

## 6. The Community will still retain some ownership of Alpine Energy

Because Line Trust South Canterbury owns 40% of Alpine Energy the Community will continue to have some ownership of Alpine Energy. A small part of Alpine Energy is also owned by Waimate and Mackenzie District Councils.

Due to the regulated nature of the electricity industry, there will be a minimal impact on the consumer, including pricing.

Options





# Options

# 05

The reasonably practicable options presented by the Council are:

1. Accept the proposal by TDHL to sell its holding in Alpine Energy, repay \$22.1M of the Council's debt and invest the rest of the money in a diversified investment portfolio within TDHL or other strategic investments. This is the Council's preferred option.

2. Reject the proposal by TDHL to sell its holding in Alpine Energy, repay \$22.1M of the Council's debt and invest the rest of the money in a diversified investment portfolio within TDHL or other strategic investments.

Along with the reasons listed earlier, the Council proposes accepting the proposal because:

- A sale of the investment in Alpine Energy would enable TDHL to diversify its investment portfolio to better manage the risks and potentially increase returns over the longer term.
- Long-term financial benefits are seen as including the opportunity for increased income from the diversified investment portfolio as it becomes more successful, while also reducing the level of risk.
- Debt reduction in Council reduces our overall debt and enables growth in Reserve Funds without increasing rates.
- The proposal aligns with the Council's Strategic Direction and contributes towards elements of our Vision, Community Outcomes and Strategic Priorities.

## 5.1 Should TDHL sell only part of Alpine Energy and retain a percentage?

TDHL did consider the option whether it should only sell some of its shares in Alpine Energy and retain some shares (e.g. sell 27.5% of the shares and keep 20% of the shares). TDHL have not recommended this because:

- A smaller shareholding does not provide the level of control and influence and therefore attractiveness to a potential purchaser and this means the price TDHL receives would be reduced.
- TDHL would be left with a small shareholding and almost no influence over the activities and operations of Alpine Energy, but still a lot of money invested.
- If TDHL decided to sell their remaining shares, it would be in an even weaker position as the remaining shares would be considered to have limited strategic value.
- A partial sale does not enable Council to maximise a reduction in debt and greater investment returns.

The Council have not included this as an option, but welcomes the community's views on this issue.

## 5.2 Assumptions

- Council does not expect there to be any change in the levels of service it delivers for its various activities and services arising from any sale
- There are no likely adverse tax consequences arising for TDHL from the sale of its shares in Alpine Energy
- The proposal does not specify a transaction date, it is anticipated that any sale would occur within the first 6 months of 2019, however the Board of TDHL reserve the right to move this date in response to changing market conditions and so as to protect the value of its investment in Alpine Energy
- The proposed draft Long Term Plan 2018 – 2028 amendment has been prepared on the basis of a sale not less than \$110 million, \$22 million being repaid to Council, the balance of the funds being invested and the dividend from TDHL to Council of between \$2.75 million and \$2.85 million continuing
- If a sale proceeds TDHL will divest itself of its entire 47.5% shareholding in Alpine Energy
- The projected financial returns used in this document are based on current information to date. In particular valuations, investment returns and interest costs are based on independent reviews and advice. These are estimates and could be subject to change
- A transaction for sale is subject to all applicable regulatory approvals, and may include NZX, foreign and competition approvals

What are the advantages and disadvantages of allowing TDHL to proceed with the proposed sale?



# What are the advantages and disadvantages of allowing TDHL to proceed with the proposed sale?

## 6.1 Advantages

- The sale of the Alpine Energy shareholding will provide TDHL and the Timaru District Council with a number of strategic options for the use of these funds. The strategic options include:
  - Reducing Council's external debt by \$22.1 million;
  - Generating a big capital sum of money that TDHL can use to create long-term wealth for Timaru District residents and ratepayers;
  - Increasing the ability to reduce reliance on rates for significant future capital expenditure (e.g. through building Reserve Funds because the Council when it repays its debt will have less interest to pay);
  - Building up a large capital fund in TDHL that can be used to finance future projects in the Community that may cost a lot of money. This means that Council will have more of its own money so it reduces the need to borrow and may not have to charge as much in rates for future projects in years to come;
  - Funding regional projects not already identified in the Long Term Plan.
- The funds received from a sale of Alpine Energy will allow TDHL to diversify its portfolio of investments and lower the risk on its investments as it will no longer have in excess of \$100 million tied up in one investment. Currently, the TDHL investment in Alpine Energy represents over 60% of its total assets by value.
- A full sale process of the total shareholding would result in a fair sale price for the shares. A partial sale would leave TDHL with a minority shareholding with even less influence over Alpine Energy and less representation on its Board of Directors.
- A diversified investment portfolio created from a sale could enable TDHL to generate greater returns than those currently received from Alpine Energy in the short to medium term.
- Longer term, from a TDHL perspective, the returns from Alpine Energy are subject to risk. Continuing to hold the shares does not provide TDHL with any investment diversification (i.e. it means TDHL does not continue to hold 'too many eggs in one basket').
- There will be minimal impact on the consumers / residents and businesses of the Timaru District (and in fact across South Canterbury). There will be no change to consumer protection as electricity line charges are regulated by the Commerce Commission, and consumers continue to hold an indirect interest via Line Trust South Canterbury.

## 6.2 Disadvantages

Disadvantage	TDHL and Council's comments
A TDHL sale of all its shares in Alpine Energy will result in a complete loss of influence on strategic initiatives and direction as TDHL would no longer have a direct shareholding.	A 47.5% shareholding does not give TDHL control over Alpine Energy, TDHL is limited to two out of five directors and so it does not have control on its strategic initiatives and direction.
If TDHL does not have any shares in Alpine Energy it would not benefit from any potential future growth from Alpine Energy activities.	TDHL and the Council think this is not a big disadvantage. Most of Alpine Energy's business comes from its lines business. This is regulated so it cannot make very large profits. Other newer diversified parts of Alpine Energy's business carry higher risk to TDHL.
If TDHL retains its existing shareholding in Alpine Energy it would continue to receive distributions (by way of dividends) of approximately \$4.7m per year after tax which is a non-rates source of revenue	TDHL will still receive income from its investments (see Section 8 for scenarios of how much income TDHL could make). TDHL expects income will not be less than it currently receives from Alpine Energy so will still receive this non-rates source of revenue.



What are the advantages and disadvantages of **not allowing** TDHL to proceed with the proposed sale?



# What are the advantages and disadvantages of **not allowing** TDHL to proceed with the proposed sale?

## 7.1 Advantages

- TDHL will retain a stable and secure investment, including stable investment returns
- TDHL will retain some influence over Alpine Energy's direction
- There are no impacts on South Canterbury consumers
- There is the ability to gain from Alpine Energy's future business developments should they become profitable

## 7.2 Disadvantages

- TDHL and the Council will not be able to take advantage of strategic options outlined under 6.1
- TDHL would lose the opportunity for maximising the return on its investments, via investment diversification
- TDHL would retain a single investment of significant value with associated risk
- The Council will not be able to repay a portion of debt or reduce interest costs

What is proposed  
for the Alpine  
Energy sale  
proceeds?

24  
ELGINSHIRE  
STREET

 **Alpine**  
ENERGY

**NETcon**



INFRATEC

# What is proposed for the Alpine Energy sale proceeds?

The sale of the TDHL stake in Alpine Energy shares would release a significant amount of cash. The directors of TDHL believe it is worth at **least \$110 million**.

Of the total sale proceeds, \$22.1 million is proposed to be used to repay the loan that exists between TDHL and the Council, with the balance being available for TDHL to place in a diversified investment fund.

The \$22.1 million of cash received by the Timaru District Council would then be available to repay existing external debt. Based on the estimated interest rates in the Council's Long Term Plan (LTP) this will save approximately \$1.1 million in interest costs per year, which would be added to the Council reserve funds. Every year the Council would earn interest on those funds.

The balance of the sale proceeds (approximately \$88 million), would be invested by TDHL in a more diverse, commercial manner that is aimed at generating higher income returns and provide long-term wealth generation for residents and ratepayers.

The increased flexibility of its investments means that TDHL (and the Council) would be better able to fund future strategic developments which will ultimately benefit the Timaru District community.

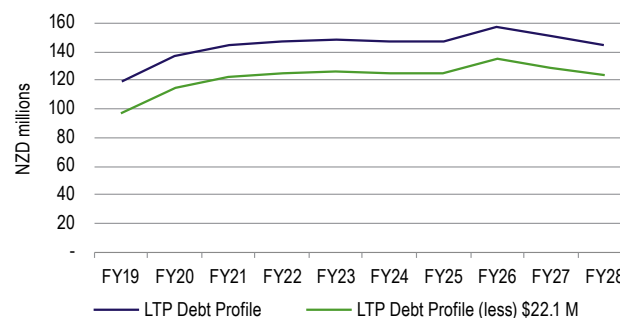
## 8.1 What are the financial implications of the proposed sale?

All financial figures are best estimates and subject to further negotiations and variation in the course of undertaking the sale process. However, indicative outcomes of the proposal from Timaru District Council's

perspective are:

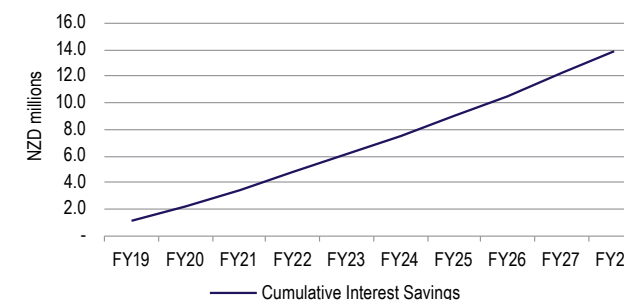
- TDHL will appoint a financial advisor to market and divest the shares held in Alpine Energy. Based on recent valuations and other independent advice, the expectation is that at least \$110 million can be achieved through a contestable process.
- It is anticipated that TDHL will repay the debt of \$22.1 million it currently has with the Timaru District Council. The Council would subsequently use this money to repay \$22.1 million of its own external debt. Following this immediate repayment of external debt, no changes are proposed to the future borrowing or repayment profile forecast in the existing Long Term Plan. The impact of this repayment is shown in the graph below:

Impact on TDC External Debt



- Timaru District Council would accumulate any interest savings from the reduction in the Council's debt in a Reserve Fund that would earn interest. It is estimated the interest savings would be approximately \$1.1 million per annum, to take effect from the 2019/2020 year. An illustration of how this interest savings could accumulate and the increase in Reserve Funds over a 10 year period is shown below:

TDC External Debt Interest Savings

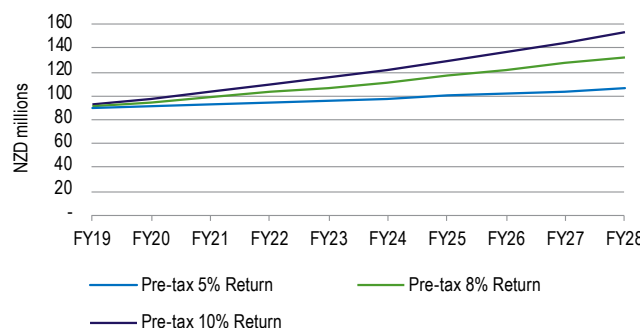




### 8.1.1 What would happen to the rest of the sale proceeds?

- The remaining balance (which is assumed to be at least \$88 million) will be placed by TDHL into a professionally managed diversified investment portfolio, or other strategic investments that the TDHL Board believe will add value. It is TDHL's intention that these funds and investment growth on them will be separately disclosed so that the community has assurance and visibility over how the sale proceeds have been applied now and into the future.
- Instead of the distributions (by way of dividends) received from Alpine Energy of approximately \$4.7 million per year (before costs), TDHL will receive income from its diversified investment fund.
- TDC is projecting to receive dividends from TDHL of between \$2.75 and \$2.85 million annually. TDHL and Council propose that this dividend will continue even if Alpine Energy shares are sold.
- Assuming a range of investment returns at 5%, 8% and 10% before tax (and allowing for a continuing distribution to Council of approximately \$2.85 million), the initial \$88 million investment could potentially increase to between \$106 million and \$154 million over a 10 year period. This is shown below:

TDHL Investment Portfolio - No capital proceeds to TDC



- The breakeven point for TDHL and TDC to achieve the equivalent of the \$4.7 million dividend currently received from Alpine Energy, is for TDHL to receive a return of 5.7% before tax annually, coupled with the interest cost savings for TDC of \$1.1 million per annum.
- The extent to which these funds are retained within TDHL or distributed to Timaru District Council is a matter that will be determined from time to time by the Council.

### 8.1.2 What would happen if a favourable sale price for the shares is not achieved?

If the sale of the Alpine Energy shares is approved, a proper process will be undertaken to generate the highest possible sale price. This will include the best support and advice from market experts.

TDHL has confidence that a sale price can be generated that meets expectations. As this is a commercially sensitive transaction, this cannot be disclosed. If this price cannot be generated, this will be weighed up using the best external advice, before a final decision is made whether to sell or not. If price expectations are not met, the shares will not be sold.

Amendment to  
the Council's Long  
Term Plan (LTP)  
2018-28



# Amendment to the Council's Long Term Plan (LTP) 2018-28

Due to the significance and nature of this proposal, it triggers an amendment to Timaru District Council 2018 – 28 LTP.

If the proposal is approved, a number of pages in the existing LTP will be amended to reflect the changes.

These can be found at [www.timaru.govt.nz](http://www.timaru.govt.nz). The sections affected are:

## Section: Overview

- Financial Strategy (p.24-27)

## Section: Council Activities

- Group of Activities Funding Impact Statement – Community Support (p.59), Recreation and Leisure (p.84), Roothing and Footpaths (p.100)

## Section: Financial Information

- Financial Strategy (p.216, 217)
- Forecast Financial Information (p.220)
- Forecast Statement of Comprehensive Revenue and Expense (p.221)
- Forecast Statement of Movements in Equity (p.222)
- Forecast Statement of Movements in Retained Earnings (p.223)
- Forecast Statement of Financial Position (p.224)
- Forecast Statement of Cashflows (p.225-226)
- Funding Impact Statement (p.228-230)
- Reserve Funds Summary (p.240)
- Long-Term Plan Disclosure Statement (p.252-253)
- Financial Statements (non-inflated) (p.256-261)

## Section: Other Information

- Council Controlled Organisations (p.310)
- Group Organisational Structure (p.314)



# Other Local Government Act Requirements





# Other Local Government Act Requirements

## 10.1 Accountability and Monitoring

Accountability and monitoring would continue to the community via Timaru District Council's 100% ownership in TDHL, which would fully own the diversified investment portfolio, its investment properties as well as half the shares in PrimePort Timaru.

TDHL (and ultimately Timaru District Council) will engage the necessary professional advisors to monitor its diversified investment portfolio. TDHL is still required to have a Statement of Corporate Intent, approved by Timaru District Council and make it publicly available, and will continue to be audited by the Auditor General.

## 10.2 Conflicts of Interest

There are considered to be no conflicts of interest caused by the sale of the shares in Alpine Energy.

# Frequently Asked Questions





# Frequently Asked Questions

## What does Alpine Energy do?

The Alpine Energy distribution network runs from the Rangitata River in the north to the Waitaki River in the south and reaches as far inland as Mount Cook. The distribution area covers over 10,000 km<sup>2</sup> and includes 4,138 km of overhead and underground electricity lines.

As there is no competition in local electricity distribution, prices are regulated by the Commerce Commission, and electricity distributors cannot change their prices without Commerce Commission approval.

Alpine Energy is primarily a lines business. As an electricity distribution company it owns and maintains the power lines used to transfer electricity from the national transmission grid to consumers.

In addition to the distribution of electricity in South Canterbury, Alpine Energy owns, or part owns several other companies.

Company	Alpine Energy's Shareholding percentage
<b>Netcon Limited (Netcon)</b> Netcon constructs and maintains substations, overhead and underground lines and associated equipment.	100%
<b>Infratec Limited (Infratec)</b> 100% owned by Netcon Limited. Infratec specialises in design, construction and maintenance for all electrical management and supply requirements.	100%
<b>Rockgas Timaru Limited</b> A liquid gas supplier to commercial and residential customers.	50%
<b>On Metering Limited</b> A joint venture between Alpine Energy Limited and Network Tasman Limited. On Metering is a member of the SmartCo Group which is deploying over 250,000 meters across New Zealand.	50%
<b>SmartCo Limited</b> Provides high quality meter services to energy retailers.	14.29%

Of Alpine Energy's other investments Netcon and Infratec are the most significant. Infratec is involved with international aid related projects in the Pacific providing electricity generation and distribution assets. This is an example of how the business of Alpine Energy has and will continue to change.

## TDHL currently gets \$4.7M from its Alpine Energy investment per annum. How much will TDHL and the Council get annually if this proposal is approved?

TDHL and the Council will still receive income and financial benefits if it sells its shares in Alpine Energy.

Firstly, the Council will save \$1.1 million a year by repaying debt and so it will have lower interest costs. These savings can be invested in a Reserve Fund and interest earned on them.

Secondly, TDHL will still receive income from the investments it makes on the sale proceeds of its shares in Alpine Energy. How much depends on the average return it gets on the investments it makes after selling its shares. The table below shows the three scenarios over the ten-year period:

Average return before tax	Increase in investment portfolio value	Investment Portfolio Value at end of ten year period
5%	\$16 million	\$104 million
8%	\$43 million	\$130 million
10%	\$63 million	\$151 million

If it makes an average of 5% per year before tax over 10 years, TDHL's portfolio will increase in value by approximately \$16 million.

If it makes an average of 8% per year before tax over 10 years, TDHL's portfolio will increase in value by approximately \$43 million.

If it makes an average of 10% per year before tax over 10 years, TDHL's portfolio will increase in value by approximately \$63 million.

TDHL and the Council are confident they would get at least the equivalent of the current \$4.7 million from the existing Alpine Energy investment, from a combination of savings from interest costs on debt (as a result of paying off \$22.1 million of debt) and investment returns on prudent investment of the remaining funds.

## Why does TDHL not join with other Councils to get majority control and greater influence over Alpine Energy's future direction?

The current ownership structure of Alpine Energy means Mackenzie and Waimate District Councils own a parcel of shares. While TDHL holds the most shares, we cannot influence the decisions of the other shareholders. TDHL also believes that it is a prudent time to diversify its holdings, for the reasons outlined earlier in this document.

## If another Council sells its portion of the Alpine Energy's shares, this will mean that majority control is no longer in public ownership. What will be the impact of this?

Alpine Energy will still operate within a regulated market where its prices for lines charges are controlled by the Commerce Commission, which means there are limitations on how much it can charge. Line Trust South Canterbury owns 40% of Alpine Energy shares, with a postal vote required should Line Trust South Canterbury propose to sell its shares in the company. Other Councils are also required to consult on any sale of Alpine Energy shares.

## Why will this proposal not impact electricity consumers?

What makes up the electricity price is controlled by a range of factors including:

- The demand for power
- The amount of electricity generation supply available (e.g. if there are low hydro storage levels the price of generation goes up as it is in short supply and this pushes the price up)
- The amount that is charged by Transpower for operating the national grid
- The amount the retailers charge – this is who a householder has their contract with

This shows there are multiple parties in the supply of electricity and Alpine Energy is one player in a large complex market. TDHL has a lot of money tied up in this and it cannot control what happens.

## What is the value of TDHL's shareholding in Alpine Energy?

As part of the due diligence in undertaking this review, TDHL has obtained an independent valuation for financial reporting purposes of TDHL's shareholding in Alpine Energy. This valuation has indicated that the shares are worth in the range of \$87.6- \$97.9 million.



## Will this proposal reduce my rates bill?

Currently, income received from TDHL reduces an average residential rates bill by over \$100 per annum. The proposal will continue this situation, and over time is likely to increase the proportion that can be used to offset rates bills, as there is less reliance on external borrowing and greater investment returns.

This proposal gives Council greater control over non-rate funded sources of revenue. This means it can use these funds for projects that would either not occur or would require greater increases in rates. For example, the savings on the interest over 10 years will approximately equate to the funding required for the Theatre Royal upgrade.

## If TDHL does not have significant influence over Alpine Energy, why will this be any different for anyone who purchases the shares?

Any new investor is likely to have specialist infrastructure knowledge and expertise. They will only take on an investment when they are satisfied it meets their investment requirements, with their knowledge and expertise giving them an advantage. Further, for a business that invests in Alpine Energy it is likely to make up a much smaller proportion of their business than it is of TDHL's assets. Ultimately, TDHL and the Council do not believe it is prudent for TDHL to have 60% of their investments tied up in one investment which they do not control.

## Why wasn't this dealt with as part of the 2018-28 LTP process?

TDHL operates independently to the Council. TDHL has undertaken an independent strategic review of its operations outside of the Council's normal LTP timeframes. As the timing of this review and its resulting proposal represents a significant decision, this consultation document has been prepared to enable public comment.

## What's a diversified investment portfolio?

A diversified investment portfolio means that investments are made across a range of investment products that earn the highest return for the least risk. Investment products could include properties, fixed interest investments and shares.

## What does a regulated market environment mean?

A regulated market environment means a government body (like the Commerce Commission) sets the amount of money companies like Alpine Energy can charge consumers.

## Why are the funds not held within TDC Accounts?

Maintaining funds in TDHL enables easier access to independent management of these funds. It also allows for the use of specialist governance, skills and expertise to manage it for the benefit of Timaru District residents and ratepayers. There are a number of successful examples of arrangements across the country where investments are managed in Council Holding companies.

## How can Timaru District residents and ratepayers be sure that the remaining sale funds would be invested wisely?

TDHL directors are appointed by and remain accountable to the Council. The Council has ultimate control over the funds.

The Council already has a very rigorous process for appointing directors to TDHL to ensure that its directors have the skills to make commercially smart investments. TDHL must provide a Statement of Intent annually which the Council must approve. TDHL is audited annually to provide assurance to the Community that its accounts are true and fair, and this is part of the oversight of prudent investment.

## Why would more of the sale funds not be used to pay off more of the Council's debt?

Lots of the Council's big and expensive assets have a very long life, well over 50 years. To be fair to today's ratepayers and the next generation the Council wants to spread who pays for those assets over more than just the ratepayers at the time the asset is built. This spreading is called inter-generational equity.

Debt is a good way to do this and it means, just like a mortgage, that payment occurs over a number of years. To do this, the Council does not want to repay all or too much of its debt at once. It thinks it has the balance about right as it repays a significant amount of debt (\$22.1 million) and it still has a substantial sum of money to invest to build up generational wealth and provide non-rates source of revenue.

## What about pre-emptive rights?

The other Alpine Energy Ltd shareholders have a pre-emptive right to buy TDHL's shares.

Pre-emptive rights means that the existing shareholders have the first right of refusal to buy the shares at their market value before they are offered to the open market. It does not mean a discount. It means they get the first choice if they want to buy the shares. This process will need to be followed with the other existing shareholders.

# Audit Opinion



# Audit opinion

# 12

To the readers of Timaru District Council's consultation document.  
Independent Auditor's Report on the proposed amendment of the 2018-28 long term plan.

I am the Auditor General's appointed auditor for the Timaru District Council (the Council). I have audited the information in the consultation document about the proposed amendment of the completed our audit on 6 November 2018.

## Opinion

In my opinion:

- the information in the consultation document about the proposed amendment of the long term plan provides an effective basis for public participation in the Council's decisions about the proposed amendment, because it:
  - fairly represents the reasons for and implications of the proposed amendment; and
  - identifies and explains the main issues and choices facing the Council and the district, related to the proposed amendment; and
- the information and assumptions underlying the information in the consultation document related to the proposed amendment are reasonable.

## Basis of Opinion

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we took into account particular elements of the Auditor General's Auditing Standards and the International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the consultation document. To select appropriate audit procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the proposed amendment.

We did not, as part of our audit work, evaluate the security and controls over the publication of the consultation document.

## Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements relating to its procedures, decisions, consultation, disclosures, and other actions associated with preparing and publishing the consultation document whether in printed or electronic form;
- having systems and processes in place to provide the supporting information and analysis the Council needs to be able to prepare a consultation document that meet the purposes set out in the Local Government Act 2002 (the Act); and
- ensuring that any forecast financial information being presented has been prepared in accordance with generally accepted accounting practice in New Zealand.

I am responsible for reporting on the consultation document, as required by section 93D of the Act. I do not express an opinion on the merits of any policy content of the consultation document.

## Independence and quality control

In carrying out our audit, we complied with the Auditor General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised); and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended).

Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council or any of its subsidiaries.



Ian Lothian

Audit New Zealand

On behalf of the Auditor General, Christchurch, New Zealand



# How to have your say





# How to have your say

Please give us your thoughts. Submissions must be received by Council by 5pm on Monday 10 December, 2018.

To make your submission, either:

## Go online

Go to **[www.timaru.govt.nz](http://www.timaru.govt.nz)**.  
Click the Have Your Say link and fill in the form.

## Fill out the form

Complete the form and post it back to us for free!

## Email it

Send your ideas to **[submission@timdc.govt.nz](mailto:submission@timdc.govt.nz)**

You can also send your submission to  
**Alpine Energy Proposal Submission,  
Freepost 95136,  
Timaru District Council,  
PO Box 522,  
Timaru 7940**

or drop it into the Council offices at 2 King George Place, Timaru or one of our Service Centres in Temuka or Geraldine.

## Timetable

Submissions Open	8 November 2018
Submissions Close	10 December 2018
Council Hearing (if required)	18 December 2018
Final Decision	December 2018

## Further information

Further information can be found on our website at **[www.timaru.govt.nz](http://www.timaru.govt.nz)**.

Should you require any further information about the proposal, or the consultation process:

email **[aelproposal@timdc.govt.nz](mailto:aelproposal@timdc.govt.nz)** or phone **(03) 687 7200**.

Your details

First Name

Last Name

Organisation (if applicable)

Phone (landline or mobile)

Email address\*

Postal Address\*

*\*we require your email address and/or your postal address*

Do you want to speak about your submission at a Council Hearing?

Yes ☐

No ☐

(tick a box)\*\*

*\*\* please complete. If you do not tick either box, we will assume you do not wish to speak to your submission.*

Your submission

Do you support the Council's preferred option for TDHL to sell their shares in Alpine Energy?

Yes ☐

No ☐

Please include your comments below:

**Please note:**

Submissions are public information. Council is legally required to make all written and electronic submissions available to Council, media and the public including the name and contact details of the submitter, subject to the provisions of the Local Government Official Information and Meetings Act 1987. If you believe there are compelling reasons why your contact details or submission should be kept confidential, please contact us.

Please use extra paper if required and attach to your submission



Proposal for  
Timaru District Holdings Limited  
to sell its 47.5% interest in  
Alpine Energy Limited



[www.timaru.govt.nz](http://www.timaru.govt.nz)