

Powering up our investments

We want to know what you think about the proposal by Timaru District Holdings Limited (TDHL) to sell its shareholding in Alpine Energy.

What are we proposing?

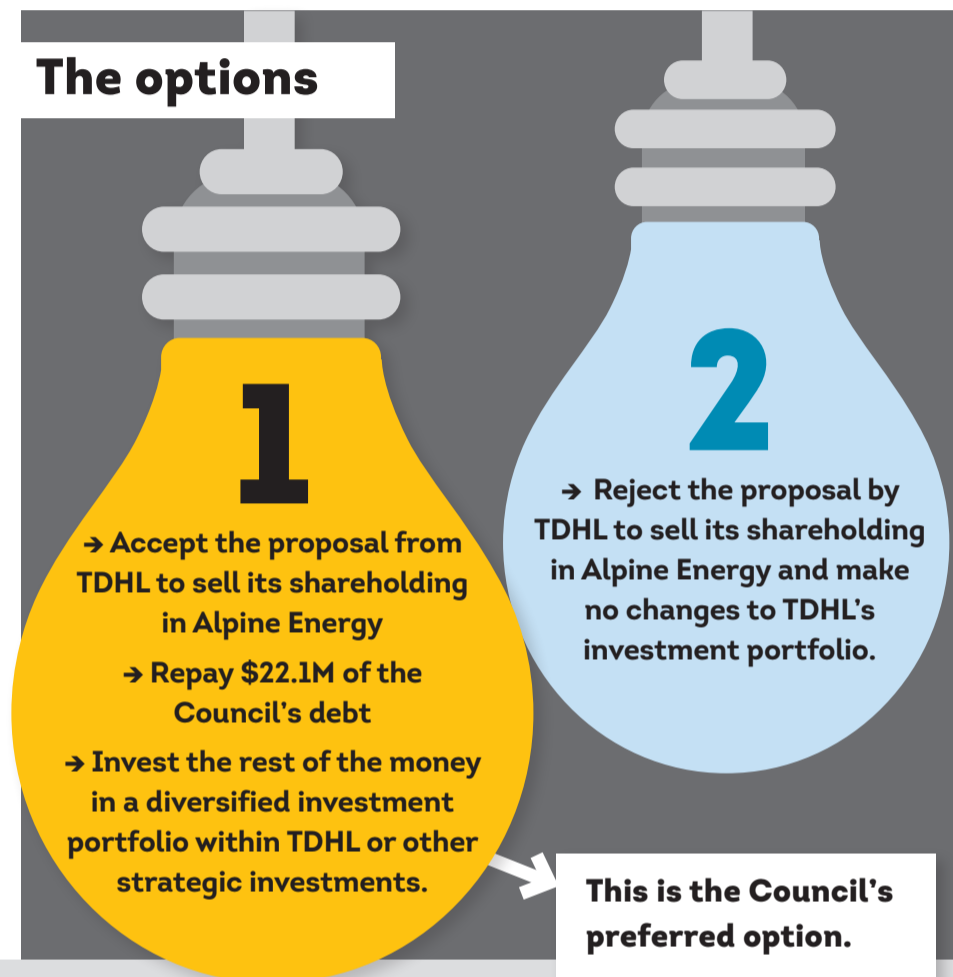
TDHL is proposing the sale of its 47.5% shareholding in Alpine Energy Ltd and using the funds to repay some of Council's debt and reinvest the remaining funds in a more diversified range of investments, or other strategic investments.

Why?

The Council believes the funds that are invested in Alpine Energy can be used more effectively for the long term prosperity and development of Timaru District.

The funds would be invested in such a way that the returns to Council would be higher, and the risk associated with the investments would be lower.

The options

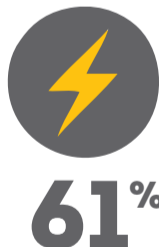


The details in a nutshell

- The Council has a range of investments that are managed on its behalf by TDHL.
- TDHL is a wholly owned subsidiary of Timaru District Council that manages Council's commercial assets.
- Council's Alpine Energy shares represent 61% of TDHL's total assets.
- This current investment generates an average \$2.85million annual return to Council.
- The proposed sale of Council shares in Alpine Energy Ltd is expected to return at least \$110 million.
- With these funds TDHL will repay a \$22.1 million debt to Council. This will in turn allow Council to repay \$22.1 million of its own external debt resulting in \$1.1 million interest savings per year, commencing from 2019/2020
- The remaining funds, estimated to be at least \$88 million, will be placed in a professionally managed diversified long term investment portfolio, or other strategic investments. Assuming a range of investment returns, the initial \$88 million investment could potentially increase to between \$106 million and \$154 million over a 10 year period.
- As well as potentially generating higher returns, a more diversified investment portfolio is considered to be a lower risk investment.

TDHL Current Holdings

Alpine Energy



Prime Port



Property



Cash



PROPOSAL: Sale of Alpine Energy shares

TDHL Proposed Holdings*

Diversified Investment Portfolio



Prime Port



Property



Cash



*Before repaying debt

**We want
to hear
from you...**

What will these options mean?

1. Sell the 47.5% shareholding in Alpine Energy

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 including:
 - Reducing Council's debt;
 - Generating a capital sum of money to create long-term wealth;
 - Increasing the ability to reduce reliance on rates for capital expenditure;
 - Building up a large capital fund in TDHL that can be used to finance future projects in the community;
 - Funding regional projects not already identified in the Long Term Plan.
- Funds received from a sale of Alpine Energy shares will allow TDHL to diversify its portfolio of investments and lower the risk on its investments.
- 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.
- A diversified investment portfolio created from a sale could enable TDHL to generate greater returns than those currently received from Alpine Energy.
- Minimal impact on the consumers / residents and businesses of the Timaru District (and 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.

Disadvantages

- A TDHL sale of all its shares in Alpine Energy will result in a loss of any influence on strategic initiatives and direction of Alpine Energy.

(Note: A 47.5% shareholding does not give TDHL control over Alpine Energy, TDHL is limited to two out of five directors.)
- If TDHL does not have any shares in Alpine Energy it would not benefit from any potential future growth from Alpine Energy activities.

(Note: Council considers this is not a big disadvantage. Most of Alpine Energy's business comes from its lines business. Other 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.

(Note: TDHL will still receive income from its investments and expects this will not be less than it currently receives from Alpine Energy.)
- Loss of the potential benefit to gain from any Alpine Energy's future business developments should they become profitable.



HAVE YOUR SAY

Want more information?

This is a summary of what is proposed.

More information can be found in the Consultation Document available on our website

www.timaru.govt.nz

or from Council Offices/Service Centres and Libraries in Timaru, Geraldine and Temuka

by emailing:

aelproposal@timdc.govt.nz

or calling:

03 687 7200

Timetable

Submissions Open	8 November 2018
Submissions Close	10 December 2018
Council Hearing	18 December 2018
Final Decision	December 2018

How to have your say

www Go online

Go to www.timaru.govt.nz. Click the Have Your Say link and fill in the form.



Email

Email your ideas to:
submission@timdc.govt.nz



Post or deliver

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.

2. Keep the 47.5% shareholding in Alpine Energy

Advantages

- TDHL will retain a stable and secure investment, including stable investment returns.
- TDHL will retain *some* influence over Alpine Energy's direction.
- Retain the ability to gain from any Alpine Energy's future business developments should they become profitable.
- Minimal impact on the consumers / residents and businesses of the Timaru District (and in fact across South Canterbury).

Disadvantages

- TDHL and the Council will not be able to take advantage of future strategic options, as outlined under the 'Advantages' above.
- TDHL would lose the opportunity for maximising the return on its investments via investment diversification.
- TDHL would not have the additional funds to repay the Council loan, meaning Council can not repay some of its debt and thereby reduce interest costs.
- TDHL would retain a single investment of significant value with the associated risk of having "all eggs in one basket".