

21 May 2021

Dear TECT beneficiary

TECT TO PROCEED WITH CHANGES TO STRUCTURE, FOLLOWING CONSULTATION.

What you need to know:

- Following a month-long consultation period with beneficiaries on proposed changes to the structure of the Trust, Trustees have decided to proceed with the implementation of the proposal.
- As a final step TECT has filed an application with the High Court for directions confirming the validity of the Trustees' decision. The restructure will only take effect if the High Court makes those directions.
- As part of this review process, an independent QC has been appointed to assist the Court in scrutinising whether Trustees are exercising their powers in an appropriate way.
- The TECT rebate is protected for existing beneficiaries under the new structure for approximately 30 years.
- If you'd like to know more, read on or go to www.tect.org.nz

We are writing to confirm that Trustees have decided to proceed with changes to the structure of TECT.

The changes and consultation followed Trustpower's announcement in January that it was undertaking a strategic review of its retail business, including a possible sale. On 28 April 2021, Trustpower announced that it is progressing due diligence with interested buyers of its retail business, though the outcome of that process is yet to be known.

A sale of Trustpower's retail business to a third party would mean that TECT beneficiaries would no longer be Trustpower's 49,000 Tauranga and Western Bay local retail customers. Instead, TECT's beneficiaries would only be a small number of larger commercial electricity users that will remain customers of the Trustpower Generation business.

The structure of TECT needs to be updated to ensure that we meet our obligations as Trustees under the Trust Deed and that TECT is meeting the purpose it was established for.

The proposal that was consulted on balances the protection of the annual TECT rebate for existing beneficiaries with the purpose for which TECT was established, while providing long-term benefit for all in Tauranga and the Western Bay.

791 written submissions were received during the consultation period, and 32 of these were heard during the oral hearing that took place on 25 March.

Trustees reviewed all feedback, and have adopted a final proposal for changes to the Trust, that is outlined below.

Trustees would like to thank all of you who engaged with the process and provided your views through a written submission, attendance at one of our consumer information sessions or at the oral hearing.

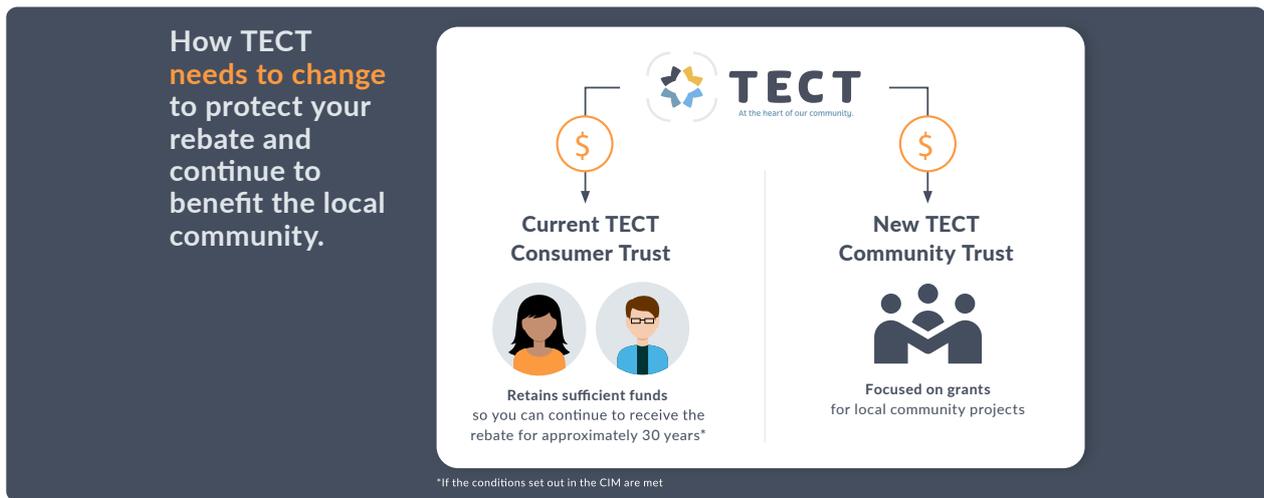
We are confident that the final proposal will ensure that TECT will continue to meet the purpose it was established for while future-proofing the rebate.

How is TECT changing?

In considering options for a new structure for TECT and the transition to it, the Trustees have been guided by four key principles:

1. **TECT's purpose** – the purpose and intent for which TECT was created.
2. **Maintaining TECT's capital** – so that a trust can continue for future generations.
3. **Legal obligations and Trustee duties** – doing nothing is not an option.
4. **Fairness** – current beneficiaries and future generations all benefit.

The proposal therefore ensures that the rebate will continue to be paid for approximately 30 years, to every existing retail customer who remains an electricity customer of Trustpower or a buyer of Trustpower's Retail Business.



The steps for change include:

Step 1:

TECT would retain funds intended to be sufficient to pay a yearly rebate to all existing beneficiaries (as of **Thursday 28 January 2021**) for approximately 30 years (i.e., the intention is to retain enough funds to pay, based on current financial projections, rebates until 31 December 2050). The amount and structure of that retention has been developed using independent customer information from Trustpower to determine an appropriate churn assumption, and financial modelling from KPMG.

An existing beneficiary is essentially a customer of Trustpower in the defined Tauranga and Western Bay of Plenty District who is currently eligible to receive a rebate.

- The rebate will be \$500 a year for the first ten years, will increase to \$600 in 2030 and increase further to \$700 in 2040, to take account of inflation. \$500 was the averaged median rebate payment over the five previous years.
- Rebates will be paid on the usual six monthly TECT cycle.
- To receive a rebate a beneficiary must remain a customer of Trustpower or the buyer of the Retail Business (or a subsequent buyer), in the district - subject to limited exceptions. If you leave, the rebate stops¹.
- New customers and the current customers of the new business do not become beneficiaries.
- At 31 December 2050, TECT must be wound up (if it has not been wound up earlier for example, due to the trust fund all having been paid out as rebates), and its remaining assets will go to the new TECT Community Trust described below.

¹ Some exemptions apply. See the proposed TECT Consumer Trust deed on the TECT website for more information.

There is no guarantee that rebates will be paid out until the end of 2050, but that is the current projection based on financial modelling. If the trust fund has been paid out in full earlier, TECT will be wound up and rebates will end.

The changes will be implemented by changing the TECT Trust Deed as summarised in the Consumer Information Memorandum dated 18 February 2021, such as changes to the definition of Consumer, the distribution clauses to lock in the rebates, the removal of the restrictions on selling Trustpower Shares, the provisions regarding trustees and the provisions about winding up.

Step 2:

The balance of TECT's funds (including its shareholding in Trustpower) would be transferred to a new long-term community trust focused on grants for local community projects.

The Consumer Information Memorandum sets out the reasons why TECT is changing this way. The changes to TECT's structure will help resolve the challenges explained and make sure that Trustees are meeting their obligation to maximise the benefit of the Trust for all beneficiaries.

What now?

As a final step we have made an application to the High Court for directions confirming the validity of our decision. The proposed restructure will only proceed if the High Court makes those directions.

As part of this review process, an independent QC (Ms Jane Anderson QC) has been appointed to assist the Court in scrutinising whether Trustees are exercising their powers in an appropriate way.

You have the right to participate in the High Court process and have your views heard, including by formally opposing the application should you wish to do so. Consumers wishing to participate in the High Court process are encouraged to seek legal advice. For more information on this process, please read the attached 'Notice of Court Application' enclosed with this letter.

If you would like to read the full proposal that was consulted on, please visit www.tect.org.nz.

Yours sincerely,

The Trustees of TECT