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Conference Call Transcript

VCT.NZ - Preliminary 2011 Vector Ltd Earnings Conference Call and Webcast

Event Date/Time: Aug 25, 2011 / 11:00AM NZT

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PRESENTATION

Michael Stiassny - ***Vector Ltd - Chairman***

-- Vector's full year market briefing for the year ended 30 June 2011. My name is Michael Stiassny and joining me on this webcast and teleconference are our Group Chief Executive Simon Mackenzie and our Acting Chief Financial Officer Shane Sampson.

Before I get to the agenda this morning, I'd like to acknowledge Shane who will be leading the finance discussion. We're pleased to have Shane in the role of acting CFO while we go through the process of finding a replacement for Alex.

I'll start today's presentation with a discussion about our dividend, followed by a short review of the highlights from Simon. Once Simon has given us an overview we'll take a closer look at the financials with Shane before Simon returns to talk about key drivers, operational performance, regulation and the solid investments Vector is making, finishing with the summary and the outlook for 2012. As usual, once the formal part of the presentation is over, we would be more than happy to answer questions.

The Board is very pleased to be able to deliver an increased dividend to shareholders. The final dividend is NZD0.075 per share bringing the total dividend for the year to NZD0.1425, an increase of a quarter of a cent on the year before. This represents an attractive dividend yield of approximately 7.9% using the share price of NZD2.54 as at 30 June. You'll be aware that our dividend policy targets an average payout ratio of 60% over time -- that is, 60% of operating cash flow after replacement capital expenditure.

Last year's payout ratio of 51% and this year's payout ratio of 56% recognize the current regulatory environment and the potential for a negative price reset during 2012. Our Board considers that both future profitability and the requirements of shareholders for a sustainable yield must be taken into account when we make a decision on dividends.

The key factor in the sustainability of Vector's dividend is the maintenance of our BBB+ credit rating. To maintain this rating, the key metrics that S&P consider are funds from operations, interest cover and funds from operations to debt ratio. As you can see from the chart, these two ratios have been improving over the last three years. It's now my pleasure to pass over to Simon to talk about the highlights of the year.

Simon Mackenzie - ***Vector Ltd - CEO***

Thanks Michael. Good morning everyone and thanks for joining us. If you've seen this morning's profit announcement you'll be aware that Vector has again turned in a solid operational performance. Electricity volume increased for the first time in three years and technology benefited from a doubling of our smart meters. We are also pleased to have completed the strategic contract with Transpose for access to our infrastructure assets which will ultimately benefit electricity users in Northland and Auckland.

Disclosed reserves at Kaposi have increased and with it our entitlement to more gas. In addition, we believe that we have entitlement to an additional 7.289 petajoules of gas under the original legacy price. We are pursuing this and it will be subject to legal review and challenge. So together, this is good news for our gas wholesale business.

Our capital structure remains strong and as you've heard our Standard & Poor's rating is BBB+ stable. In December we successfully placed NZD251 million in the US private placement market. Also during the year, the Government made the decision to award the UFB contract to Telecom, the incumbent telco operator. We always said that we would participate as long as it made commercial sense. Our not winning confirms that we were not irrational in our bidding. Later in this presentation I will discuss our fiber business in a little more detail.

However, we continue to negotiate and navigate our way through the incredibly frustrating regulatory reset process. With solid grounds we launched our appeals against the Commerce Commission in the form of judicial review, error of law and merits review. All in all, yet again another busy year for Vector.

Turning to slide nine, this year we have again recorded steady financial performance. All of our key measures have lifted year on year with revenue up 4.8%, EBITDA by 10.1% and NPAT by 4.1%. These growth figures include some one-off items, namely the positive contribution from the Transpose deal in 2011 and the non-cash benefit from the changes in the tax regime in 2010. Excluding these, underlying EBITDA grew by 2.8% and NPAT dipped slightly by 0.8%, largely reflecting increases in depreciation and borrowing costs.

Operating cash flow was strong, up 1.9% on 2010 and our capital expenditure ended the year at NZD257 million. As an aside, it is interesting to note that approximately 60% of this amount, or NZD156 million, was spent on our regulated networks or, to put it in another way, the same amount of investment required to build a 100 megawatt combined cycle gas turbine plant that would provide power to 65,000 homes. So total dividends paid to Vector shareholders during the year totaled NZD141.9 million, an increase of 3.7% on 2010.

I am now pleased to hand you over to Acting Chief Financial Officer Shane Sampson, who has been with us for quite some time, to discuss the detailed explanation of the financials.

Shane Sampson - ***Vector Ltd - Acting CFO***

Thank you Simon and good morning everyone. Let's start by looking at the income statement. Revenue increased 4.8% to NZD1245 million, despite a fall in gas wholesale which was more than offset by increases across all other segments and the Transpose tunnel deal. Capital contributions remained at the historically high levels we saw in 2010, contributing approximately NZD31 million for the year. There continue to be a large number of projects and relocations planned for the year ahead and as such we could expect capital contributions to remain around the same level in 2012.

Operating expenditure was down NZD1 million, reflecting a fall in gas purchases and production expenses driven by lower natural gas volumes. This was partly offset by a full year's impact of AMS personnel costs, a write-off of bad debt for the liquidation of natural gas supplier E-Gas, higher maintenance expenses as a result of the Christchurch earthquake and the September storms. In addition, it will come as no surprise that we experienced increased regulatory costs as we prepared and submitted on the new regulatory regime and prepared for the appeal process.

Overall, this led to an EBITDA improvement of NZD59 million, while NZD42 million of this is one-off and reflects the tunnel deal. Encouragingly, NZD17 million of this uplift reflects continued strong operating performance. Depreciation and amortization increased by NZD14 million, principally reflecting higher depreciation and technology arising from the accelerated depreciation of legacy meters.

Results of associates improved by NZD5 million, principally reflecting increased profits in our businesses Treescape and Energy Intellect. During 2011 we deemed it appropriate to make an adjustment to the carrying value of our investment in New Zealand Windfarms, whose share price declined during the year and closed at NZD0.151 on 30 June 2011. As such it was prudent to write-down our investment by NZD2.3 million to reflect the lower market capitalization.

Net borrowing costs have increased by NZD11 million. In 2010 we benefited from a one-off NZD6.6 million gain arising from the repurchase of NZD40 million of floating rate notes at a discount. 2011 was impacted by a reduction in capitalized interest and the holding costs associated with the drawdown of the US private placement three months before the credit wrapped medium term notes were repaid.

For 2012, approximately 30% of our debt is floating and overall we would expect slightly lower borrowing costs based on market forecasts of interest rates. Tax increased by NZD34 million, reflecting a NZD20.9 million one-off non-cash decrease in tax liability in 2010 following the Government's 2010 budget changes. The remainder of the increase reflects the profit and loss tax charge for the tunnel deal.

Overall, reported net profit after tax increased by 4.1%. However, excluding the significant one-offs, underlying net profit after tax fell slightly by 0.8%. Improvements in electric, technology and shared services have all contributed to growth in EBITDA in addition to the tunnel contribution. This was partly offset by small declines in the gas transportation and wholesale segments.

Let's now look at the segments in more detail. Let's start with electricity. Revenues increased 3.6% reflecting a 1.8% increase in volume, increased capital contributions and CPI price adjustments made under the current regulatory regime during the period. Operating expenditure increased by NZD11.3 million due to increased regulatory costs and higher planned and corrective maintenance. Depreciation increased by NZD3.5 million given the increased asset base. Overall for electricity we saw a pleasing improvement in EBIT of 1.8%.

It is worth noting that growth capital expenditure fell by 10% as a result of a significant amount of substation work carried out in 2010, in particular the Liverpool Street to Quay Street 100 KB feeder. For 2012 we expect to see a significantly higher level given projects such as major upgrades at our Hobson Street and Wairau Road substations.

Turning to gas transportation, revenue increased 5.6% to NZD205 million, reflecting an increase in gas transmission. Gas transmission benefited from the release of a provision for a contractual dispute and the Kupe Field becoming operational in December 2009. Gas distribution was relatively flat with the CPI adjustment being offset by lower volumes given the warmer weather.

Over the period, operating expenditure increased by NZD13 million reflecting a write-off of bad debt following the liquidation of E-Gas, increased regulatory and maintenance costs. During 2011 we undertook a large amount of cleaning and inspection of our pipelines using intelligent devices. We undertake these inspections every ten years for rural and five years for urban networks. This peak in the cycle is expected to be complete by the end of 2012.

Replacement CapEx has increased by NZD11.3 million reflecting pipeline replacement on old sections of lower pressure pipeline. The timing of gas CapEx is typically lumpy in nature and for the next few years we expect a higher level than 2011, reflecting continued investment in our networks, provided the regulatory reset is appropriate.

Gas wholesale EBITDA fell NZD4.5 million. As expected liquid gas fell year on year reflecting the Maui legacy contract rolling off in December 2009 and the commencement of the new tolling regime. Our natural gas business experienced a fall in EBITDA reflecting lower volumes which were partly offset by higher margins. These falls were partly offset by improvements in our Kaposi Gas Treatment Plant where we saw higher natural gasoline prices and improved pricing on a major LPG contract.

Our LPG business benefited from an opportunistic sale to a competitor and the acquisition of Kwik-Swap. It is interesting to note that if you compare the two second halves for gas wholesale -- which exclude the impact of the Maui contract roll off -- we saw an increase in profitability.

Moving on to the technology segment. Period on period revenue increased by 9.1% reflecting growth in both metering and our fiber business. Metering revenue grew, reflecting the accelerated deployment of smart meters following the acquisition of AMS. Communications revenue continued to grow organically. Operating costs increased by NZD1.6 million reflecting the acquisition of AMS and depreciation increased by NZD15.5 million as we have accelerated depreciation on our legacy meters in accordance with the accelerated deployment of our smart meters. We expect the bulk of our legacy meters to be fully depreciated by the end of 2012.

Turning to shared services, revenue increased by NZD47.7 million. The tunnel deal generated NZD42 million -- revenue of NZD53 million offset by the de-recognition of a portion of the associated assets. In addition, during the year we disposed of surplus land making a gain on sale of some NZD5.7 million. Costs fell by NZD3 million reflecting small savings achieved across a number of areas.

Let's now look at the cash flow statement. Operating cash flow improved 1.9% reflecting the underlying growth in EBITDA. Replacement CapEx increased NZD27.3 million, partly reflecting timing differences and an increase in gas transportation expenditure year on year. Cash flows from other investment activities increased as a result of the NZD28.1 million received in June 2011 from the tunnel deal. We will receive the remainder of the cash in June 2012.

Let's now look at Vector's debt maturity profile. In December we successfully placed NZD250.5 million of unsecured notes in a final placement which matures in December 2022. This money was used to repay the credit wrapped medium term notes that matured in April 2011.

During 2012 we will be refinancing an undrawn NZD50 million senior credit facility that matures in February 2012 and NZD307 million of capital bonds which have an election date of June 2012. We have the option to elect to roll the bonds or redeem and replace them with an alternative debt instrument. Consistent with our proactive debt profile management, our plans are underway for these and, despite the current global financial turmoil, we remain comfortable that we can refinance.

Our capital structure remains strong with a gearing ratio of 52%. Net debt has fallen year on year by NZD158 million. Taking into consideration the hedges on our foreign currency denominated debt, our net debt levels are stable. Our interest cover remains comfortable at 2.6 times and Vector remains in a strong financial position. With that I will hand over to you Simon. Thank you.

Simon Mackenzie - ***Vector Ltd - CEO***

Thanks Shane. Turning first to electricity ,we added 4362 customer connections this year, down 10% on 2010. At the half year we reported a trend of declining growth in residential connections reflecting less activity also in the multi dwelling apartment market. This was partially reversed in the second six months. Looking at connections by segment, business customer connections showed pleasing growth, up 11.8%. Conversely, residential connections contracted by 18.4% this year with 2868 new connections in 2011 compared to 3515 the year before.

However for the first time in three years volume grew, ending the year at 8319 gigawatt hours, up from 8168 gigawatt hours last year. All year we have been tracking well ahead of 2010 volumes despite warmer temperatures in May and June, slowing the rate of growth, volume was up 8.1%. Unpacking volume by segment, we saw a similar trend in business growth at 3.1%, outperforming residential growth which was broadly flat despite the unseasonably warm weather in 2011.

Breaking the business segments down further, demand from small to medium sized businesses increased by 3% and industrial and commercial by 3.1%. Network performance, or SAIDI as it's known, remains within the Commerce Commission's quality threshold but nevertheless is markedly different from last year and closer to the long run average, again reinforcing the inherent volatility in this metric. This arose due to more unsettled weather, with approximately 30 minutes worth of SAIDI being due to the September 2010 storms, of which only nine minutes were able to be classified as extreme under the Commerce Commission's criteria.

We had other lesser impacts also which include a major upgrade project on the Point Chevalier area and the bringing forward of some maintenance projects in preparation for the Rugby World Cup. In gas distribution we saw 3% growth in connections compared to 1.8% for 2010. Again looking into the segments, residential connections grew 6% year on year. Small, medium and industrial and commercial connections growth contracted compared to 2010.

Distribution volume was almost flat, slipping by just 0.3 petajoules. In gas transmission volume grew 9.5% to 120.1 petajoules, reflecting the addition of a full year's production from the Kupe field. We also continue to work with the industry on the complex issues of legacy contractual rights and allocation of capacity on our northern gas pipeline. The gas wholesale segment is perceived to be one of the more complex areas of our business.

Let's now look at each area in turn. In natural gas, changing customer demand and customer mix alongside increased competition in the industrial and commercial sector saw volume dip by 5.6 petajoules. However, I would note that EBITDA against H2 2010 was up slightly. We continue to focus on maintaining profitability and our gas book remains in a good position. Our natural gas business contributed approximately 45% to the gas wholesales EBITDA.

We have a full year's activity under the new tolling model for liquid gas and also stepped up our export activity in the final quarter. Our LPG business, OnGas continues to gain momentum and customers. We acquired a bottle swap business from Quik-Swap in February and are now in the process of rebranding these sites across the country as OnGas. We now have more than 500 bottle swap locations nationwide and lead the market in this channel. At the end of June, the on desk customer count stood at 29,500 -- up 1000 on the year before.

The Kaposi Gas Treatment Plant also benefited from higher prices for natural gasoline and LPG and continues to be a good performer. As mentioned, the issue of field reserves at Kaposi has turned in our favor. In July the mining companies disclosed to the Ministry of Economic Development an additional 88 petajoules above the original recoverable gas figures of 1010 petajoules that was agreed in 1997. We have contractual rights to half of the reserves above 1010 petajoules and will continue to negotiate a price for this gas -- roughly 44 petajoules -- shortly.

We are also pursuing a further 7.289 petajoules of gas at the legacy price that we believe we are entitled to. We have resolved the complicated issue of emissions trading and are pleased to report that its impact on the business is neutral -- as expected.

We have maintained our momentum in smart meters with 115% growth in the numbers installed this year. We also have excellent opportunities to extend and grow our metering business by asset ownership and data services including additional contracts as retailers move more and more to smart meters, the ability to sell data management services to other meter providers and extending our metering opportunities and data services to new areas such as water.

In respect of the Government's fiber initiative, it has only been three months since the UFB announcement and the industry continues to be in a state of upheaval. Our fiber network originated from leveraging our technology convergence strategy pertaining to reinvestment in our energy assets dating back to the early 2000's. This continues today. As such, there is intrinsic value in this fiber network, not only for us -- for our regulated assets -- but for many other parties.

Importantly also, we look forward to Chorus joining us in the debates as another regulated utility. Clearly the structural separation will require a move to this form of regulation similar to that in Australia. It is also encouraging to observe that the Government's allowable return for new investment infrastructure is 15% as per the UFB agreement with Chorus.

So it is business as usual for our fiber team. We have customers that rely on us good long term contracts, highly valuable assets both to our regulated and non-regulated assets and of course the country's best fiber network.

Turning to the electricity default price path, the latest announcement from the Commerce Commission currently proposes an average 8.5% price decrease from April next year. Putting aside the fundamental flaws in the inputs methodology for a moment -- as these are currently up for debate through the appeals process -- the model that is proposed to calculate the price adjustment has a number of basic modeling and methodological errors which, if adjusted, will increase our allowed revenue as published by the Commission from NZD402 million for the regulatory year to 2013 to approximately NZD419 million.

I would like to note that based on recent draft decisions we are recalculating our asset valuations, as the Commerce Commission has allowed new metrics and features to be added to asset values in their recent draft papers. Further, given the Christchurch earthquake, we are also seeking wider insurance coverage of our assets that will also form part of our cost base for the price reset.

Since 2002 when Vector was first price regulated, our input costs such as materials have risen far more than the rate of inflation and our average price increases have been capped at no more than CPI. Last year we noted that the Commerce Commission's own expert, Professor Wolak from Stanford University, remarked that our prices have been maintained flat in real terms despite significant cost increases on materials and labor since 2004. This is in stark contrast to other components of consumer electricity bills.

While the Commission argues that they are imposing this price decrease for the interests of the consumer, the end consumer will only see the benefit if retailers are required to transparently pass on the price decrease. The graph that we have provided says it all.

Following ten years of regulatory uncertainty, we are now able to challenge the Commerce Commission due to changes in the Commerce Act. But it is disappointing to have to resort to taking legal action. However, the Commission has left us no choice. We are now dependent on the legal process to provide the certainty we've been lacking for the last decade -- not only us but also the capital markets -- and ensure that the Commission complies with Government policy statements and the requirements of the Act.

Frankly, the current regulatory environment will not deliver long-term benefits to consumers. It also imposes a significant cost burden on our business and is devoid of commercial reality. We must have regulatory certainty for our sector, for our investors and for the long-term benefit of customers. The Commission's decisions are not only confusing and unrealistic, they don't meet the intent of the Commerce Act.

There seems to be no recognition or understanding that New Zealand companies, given the size of our capital markets, have to raise money from international markets, not just domestic. International investors have a myriad of choices for their capital, all with differing returns and risk. In order to compete against other companies raising funds in these international markets, we must be able to offer a competitive rate of return in a stable environment. The current regulatory regime with its inherent uncertainty and low returns doesn't adequately support our sector and in fact it doesn't support New Zealand.

There is clearly a disconnect between the Government's rhetoric on the importance of the infrastructure sector as a driver of economic growth and the messages and decisions coming from the Commission. During August we had our first judicial review on the issue that the Commission has not provided a complete package and, in particular, the starting price adjustment process is not included in the inputs methodologies.

In October we have our second judicial review on the process. Once we have been through this with Judge Clifford -- will determine the timing of the merits review and error of law. While timing is unclear, our expectations are for Q3 of next calendar year. Our preference is clear -- to have a good regulatory environment rather than rely on the courts. But we simply are left with no realistic choice to achieve this.

Across our business units -- both regulated and unregulated -- we are investing to grow. In electricity we are supporting Auckland's growth and security of supply by upgrading two extremely important substations in the CBD at Hobson Street and on the North Shore and Wairau Road. In conjunction, Transpose is also installing equipment in these two locations as part of its known project. We're also supporting two major public infrastructure projects, the Waterview Tunnel and the Victoria Park Tunnel, with electricity in particular.

We're constantly extending and upgrading our electricity networks. We invest for the long-term and are planning for around NZD2.3 billion of capital investment and maintenance in our electricity business over the next decade, subject of course to where the regulatory debate ends up.

In our gas distribution business we continue to invest and renew our pipelines, adding 33 kilometers to our network in just the past 12 months. In gas wholesale, we made two acquisitions during 2011, an LPG business in Hawkes Bay and Quik Swap. In technology our smart meter installations continue at a very credible rate now that we own 100% of AMS, whilst we broaden the scope of our metering business and services to other customers.

So in summary, we've had another solid year. The business is performing well and this is reflected in our financial results. Looking forward to 2012, our EBITDA expectations are slightly above that of the current market consensus. We're up to the challenge of driving a better regulatory outcome for our segment, at the same time that we drive growth in metering, gas, technology and continue to assess other growth options. Of course our communication business remains in a positive position as noted.

Looking ahead, our businesses are in a strong position but we have to recognize the potential impact and timing of regulatory price resets. Even if we succeed in our legal challenges, we will be impacted until such time as new methodologies are set and we then recover any assets. Our objective remains to deliver reliable and sustainable dividends to our shareholders and drive growth thorough our businesses.

That concludes today's presentation. We're now going to hand over to the teleconference moderator for your questions. Please follow their instructions.

QUESTION AND ANSWER

Operator

(Operator instructions) Our first question is from the line of Matt Henry from Goldman Sachs.

Matt Henry - ***Goldman Sachs - Analyst***

Good morning. I've got a number of questions if I may? You know that costs in the electricity and gas business obviously appreciated reasonably significantly this year. Are you able to give us a sense of what the contribution was from regulation to those cost increases and whether you expect any further appreciation to '11 or whether we should see some sort of claw back?

Shane Sampson - ***Vector Ltd - Acting CFO***

Hi Matt. The question of exactly how much the cost of regulation is something we're working through as part of our submissions to the Commerce Commission. But there's both the direct costs in terms of legal, professional fees et cetera but also a big burden on the business in terms of all of the senior management team's time focused on regulation. In terms of next year we would see a fairly flat level of costs across those businesses.

Matt Henry - ***Goldman Sachs - Analyst***

Okay. Thanks. Second question is on Kaposi. Are you able to give us some sort of color around what the point of dispute is? Are you also able to give us a sense of what the remaining entitlements are at legacy pricing beyond the seven or so that's under dispute?

Simon Mackenzie - ***Vector Ltd - CEO***

Yes Matt. In the first instance, the 7.289 petajoules relate to the way in which gas has been deducted for liquids equivalence. So we are basically disputing essentially how that has occurred historically. That gas obviously falls into the category of our legacy gas entitlements which we are saying would add to a successful -- our remaining gas entitlements under the legacy prices.

Matt Henry - ***Goldman Sachs - Analyst***

Okay. So it's additional?

Simon Mackenzie - ***Vector Ltd - CEO***

It's additional, yes. It's not like deducted off it.

Matt Henry - ***Goldman Sachs - Analyst***

Sure. Are you able to give us a sense about where you're tracking on the remaining entitlements from Kaposi? The remaining legacy price entitlements?

Simon Mackenzie - ***Vector Ltd - CEO***

We're not going to go through that just at this point in time.

Matt Henry - ***Goldman Sachs - Analyst***

Okay, that's fine. Just two last questions if I may. Firstly on your guidance, what have you assumed around a P nought decision? The second one was just on technology. Are you able to give us some idea of what the earnings split between meters and fiber is and also comment on what you think the outlook for that business is? I note that earnings at the EBIT line are substantially below what they were two years ago and as a business you continue to expend a decent amount of CapEx on.

Simon Mackenzie - ***Vector Ltd - CEO***

Yes Matt. In the first instance with regards to your question around P nought, we're obviously assuming currently that from a conservative perspective we're following the Commerce Commission's 8.5% -- but with adjustments that we identify as their materially wrong positions. So that's -- I guess what we are not assuming in that as I'd mentioned -- is that they allowed some adjustments to the asset values that came through in the latest draft positions that we haven't included so we're basically providing you asset valuations on that. It's just slightly below that 8.5% P nought for electricity.

Also note that from a timing perspective for next year's forecast, there'd be basically two months -- sorry three months -- of that pricing next year as opposed to a full year. We're obviously not assuming any P nought claw back or anything should merits review be successful, as that will not come into fruition until obviously the court case.

With respect to the metering, I'll just add a bit of color on that one. I think the key point here is that our technology segment obviously comprises three parts. The first part being the legacy meters. Second part being the new smart meters and the third part being obviously the fiber. From a capital investment perspective, our investment in fiber is basically always backed with contracts that support that investment.

From that perspective, most of the capital going into the segment has been through the new smart meters. The legacy meters obviously -- there's a declining contribution from those as they get displaced and fundamentally had to be displaced because of compliance requirements in 2015. Shane can just give you a quick heads-up on some of the other points that you noted.

Shane Sampson - ***Vector Ltd - Acting CFO***

I think particularly you asked a question around the lack of growth in the EBIT line. As we talked about earlier, that's being driven by the acceleration of the depreciation. We would expect to be through that by the end of the 2012 year and you'll see the growth in EBITDA start to flow through to the EBIT line.

Matt Henry - ***Goldman Sachs - Analyst***

That's great. Thanks very much.

Shane Sampson - ***Vector Ltd - Acting CFO***

We are seeing -- we would expect to see growth in that segment next year.

Matt Henry - ***Goldman Sachs - Analyst***

Excellent. Thank you.

Operator

Your next question is from the line of Grant Swanepoel with Craigs.

Grant Swanepoel - ***Craigs Investment Partners - Analyst***

Good morning fellas. Just in terms of your merit review, what are you guys looking for, in that it's an open-ended book in terms of what a top end WACC could be or what your asset base could come out. What is your best case scenario in terms of -- the current WACC is sitting at what, just around about 7.8%? You guys are looking like 8.5% plus. On the asset base you're looking for another 20% on top of that. Where would you be satisfied?

The second question would be around, just a quick one, on the E-Gas write-off. What was the quantum of that? The final question is on the little thing you mentioned on New Zealand Windfarms. Is this an asset that you want to keep holding on to now that they've completed the wind farm? Will you not be actively trying to get it off your books at some sort of premium to which you're writing it down to?

Simon Mackenzie - ***Vector Ltd - CEO***

Just going through those, with regards to the merits appeal, what are we trying to achieve? I think obviously the best outcome is to increase WACC, to increase valuation. I think those are the two primary outcomes. I think it'd be fair as an indicator to say that if you look at the Australian weighted average cost to capital, clearly we should be in that type of range which sits currently about 1% above what's being proposed by the Commerce Commission. We'd have to argue that that's clearly slightly north of that.

I think in asset valuation, we've set this out in our merits of appeal process. In particular, we break it down into two parts Grant. There's that the Commission had always proposed a new ODV back in 2008. Furthermore, they also -- the origins of ODV was the efficient new entrants test. So two things have gone on. One is that they are now trying to move away from the efficient new entrant test and secondly trying to move away from having to do a new ODV. So that's the fundamental position on our merits appeal, is that there has to be a new ODV to start the regulatory period, which obviously is from 2010 to 2015.

Now I think the practical reality of all this is that if we gained more on the asset valuation and less on the weighted average cost of capital or vice versa, it doesn't necessarily mean that we could end up in a situation where it may imply a cost increase of say 10%, then it doesn't necessarily imply that we're expecting to be able to get that price increase. What it would rather do is probably inform that we might get a slight increase above CPI over a transitional period. Equally we argue that that should occur on the other side if there is a price reset.

So our position is that the WACC is too low and it should be clearly above that of the Australian context and our analysis shows that. Our asset valuation should be a new valuation based as of just pre to 2010, which if you apply that is going to be a reasonably significant (inaudible) of asset base north of probably 15% to 20%.

The second question I think you had was with respect to E-Gas write-off. I'll let Shane just give you the background on that.

Shane Sampson - ***Vector Ltd - Acting CFO***

Hi. The write-off was low single digit and predominantly set in the gas transportation segment.

Grant Swanepoel - ***Craigs Investment Partners - Analyst***

Sorry Shane, did you write that off your normalized number or add it back to your normalized number for this year?

Shane Sampson - ***Vector Ltd - Acting CFO***

The only things when we've shown our results excluding unusual items, the only thing we've put in as an unusual item is the tunnel transaction in the current year.

Simon Mackenzie - ***Vector Ltd - CEO***

Does that answer your question Grant?

Grant Swanepoel - ***Craigs Investment Partners - Analyst***

Yes it does. The final question was on the wind farms.

Simon Mackenzie - ***Vector Ltd - CEO***

Wind farms. Yes. With respect to wind farms, I guess we're in the same position as articulated by the New Zealand Windfarms board -- which hopefully shouldn't come as a surprise given that Michael and I sit on that. But the point is that our focus has been on completing the project. We fully support the fact that it should be completed and stabilized. I think New Zealand Windfarms has also identified that, post that, will review options of it going forward. We fully support the view of looking at the options to maximize the value going forward. Clearly one of those could be sale of the wind farm.

I think the other important part is that you will have noticed just recently, the agreement with Windflow Technology for the spares and services agreement to ensure stability going forward for the wind farm operation. So I think you can take from that that we are fully supportive of reviewing those options going forward of which one may be divestment.

Grant Swanepoel - ***Craigs Investment Partners - Analyst***

Thanks Simon, that was very clear. Thanks Shane.

Operator

The next question is from the line of Wade Gardiner with UBS.

Wade Gardiner - ***UBS - Analyst***

Hi guys. A couple of quick questions. Can you quantify the fiber rollout costs that were in this result? Have you had talks with Chorus, one in terms of your network i.e. would they be interested in acquiring it and secondly on access to your electricity lines and easements for their rollout. You mentioned before about the CapEx on fiber and it was all backed up by contracts. In general, how long are those contracts?

Simon Mackenzie - ***Vector Ltd - CEO***

Okay, just going through those. The first one is fiber rollout and the costs, you say that's CapEx. That's very low single digits --

Wade Gardiner - ***UBS - Analyst***

No, I was more talking about your costs associated with the Crown fiber.

Simon Mackenzie - ***Vector Ltd - CEO***

Sorry, the --

Wade Gardiner - ***UBS - Analyst***

The process costs.

Simon Mackenzie - ***Vector Ltd - CEO***

The process costs, yes. We've previously identified that those are in single digit numbers, much lower than other parties have expended on it. We're not revealing this to the nth degree but they are low single digit numbers.

With respect to talks with Chorus, we've had no formal talks with Chorus on that matter. Obviously from our perspective we have a valuable fiber business and assets that they may be interested in. But we also have plenty of other options for the business from our own perspective, also recognizing the origins of this being from the legacy of investment for the smart networks and our energy businesses.

Wade Gardiner - ***UBS - Analyst***

What about contract lengths on those --

Simon Mackenzie - ***Vector Ltd - CEO***

Sorry, contract lengths --

Wade Gardiner - ***UBS - Analyst***

That's all right.

Simon Mackenzie - ***Vector Ltd - CEO***

Some of them vary. Going back one step, the build of our network has occurred in a number of different ways. There's obviously the build that supports our electricity assets which is essentially a significant backbone around the network area. So largely that's contracted through into our electricity business for basically those services.

The other aspects pertain to the build on the North Shore which was largely funded by the Crown through the MUSH Project, where we connect up 43 schools on the North Shore. Then our other contracts relate to the likes of Vodafone and also Transpose, where those contracts have duration basically longer than 10 years. Further to that we do have obviously shorter term customer contracts where some of them are basically a portfolio. Some are expiring in a year, some out to three or four years.

Wade Gardiner - ***UBS - Analyst***

Okay. Thank you.

Operator

The next question is from Andrew Harvey-Green with Forsyth Barr.

Andrew Harvey-Green - ***Forsyth Barr - Analyst***

Good morning guys. I fear most of the questions have already been asked and answered. Just one quick one just to clarify your comments around the FY12 guidance. Looking at EBITDA then the consensus number I think was about NZD604 million. Is that the same number as what you were using in reference to those comments?

Simon Mackenzie - ***Vector Ltd - CEO***

Yes that's right. The consensus number is, from our information, around NZD604 million EBITDA.

Andrew Harvey-Green - ***Forsyth Barr - Analyst***

Yes, okay. I think everything else has been covered thanks.

Simon Mackenzie - ***Vector Ltd - CEO***

Thanks.

Operator

Are we ready for the next question?

Simon Mackenzie - ***Vector Ltd - CEO***

Yes.

Operator

Your next question is from Stephen Hudson with Macquarie.

Stephen Hudson - ***Macquarie Securities - Analyst***

That was quite an introduction. Good morning. I just had a couple of quick questions. The comment you made about the modeling errors that you've identified, which amount to around about NZD17 million, just to clarify, does that imply that you're saying that the 8.5% P nought adjustment should be closer to 4.5%?

Simon Mackenzie - ***Vector Ltd - CEO***

What we're saying Stephen is that those modeling errors need to be corrected down -- I'm not going to go into the exact numbers -- it's not quite down that low. Probably a couple of percent would be closer. But the modeling errors do pertain to issues such as timing of cash flow and some cell referencing.

Stephen Hudson - ***Macquarie Securities - Analyst***

Right. Okay. Just a second question on your current level of replacement CapEx, I think it's around about NZD119 million, versus depreciation of NZD170 million. I'm just interested in whether or not you can reconcile those two numbers realizing that obviously CapEx is lumpy, but obviously it's quite important for forecasting your sustainable dividend?

Shane Sampson - ***Vector Ltd - Acting CFO***

Hi Stephen. I think if you look back we have historically had those levels of replacement CapEx. We continue to ensure that our network is adequately maintained. So we wouldn't see -- as we indicated in the gas transportation area we've got some lumpy CapEx coming through -- but overall we don't see those numbers coming together over time.

Stephen Hudson - ***Macquarie Securities - Analyst***

The main difference is in gas transportation?

Simon Mackenzie - ***Vector Ltd - CEO***

Gas transportation. I think just to add to that Stephen is that the network age is still relatively young and coupled with obviously the replacement program, which can also depend on the way in which we approach the CapEx reinvestment in our network. As we look forward on the regulatory outcomes, we have options to run assets to failure versus replacement just prior or earlier than failure. How you do block replacements from an efficiency of build perspective? So there's a degree of movement around those and then also in the gas side there is some lumpy chunks that come through, particularly in the gas distribution that we're also - we've got a couple of years to go on some gas pipeline replacements.

Stephen Hudson - ***Macquarie Securities - Analyst***

But smoothing all of those factors, you're comfortable using an ongoing replacement CapEx number of about NZD120 million?

Simon Mackenzie - ***Vector Ltd - CEO***

Yes. It's kind of in that range. We just obviously have to identify that from time to time there could be some ups and downs based on what's required from the network. The replacement can also be impacted obviously through capital costs through events such as major storms. We've seen some reasonable swings when we've had big storms come through for example.

Stephen Hudson - ***Macquarie Securities - Analyst***

That's great. Thank you.

Operator

The next question is from the line of Jason Lindsay with First NZ Capital.

Jason Lindsay - ***First NZ Capital - Analyst***

Hi guys. Actually most of mine have been asked as well but just a couple of quick ones. Shane, are you able to give us a feel for the weighted average interest rate at year end?

Shane Sampson - ***Vector Ltd - Acting CFO***

Apologies. I don't have that number to hand but I can certainly come back to you after this.

Jason Lindsay - ***First NZ Capital - Analyst***

Great. Thanks. Just the only other one was a follow up to an earlier question. I think Simon you gave an answer on the CapEx split within technology. Can you give a rough split of the EBITDA contribution between the metering business -- which is obviously both the old meter from the smart meters -- and telecoms or fiber?

Simon Mackenzie - ***Vector Ltd - CEO***

I think Jason we've talked around this one before. So we're not splitting that at this point in time.

Jason Lindsay - ***First NZ Capital - Analyst***

Okay, thanks.

Operator

Your next question is from Gavin Evans with Energy News.

Gavin Evans - ***Energy News - Media***

Yes. Good morning Simon. Just a quick question. I know it's one of the hard ones to answer, but if you get a merits review started in the third quarter of next year, how early do you think you might have a decision?

Simon Mackenzie - ***Vector Ltd - CEO***

Good question. Obviously we'd like a decision as quickly as possible because I think that fundamentally would add to certainty with respect to some regulatory outcomes. I think we're saying that it might be the third quarter of 2012. I think it's also important to note though Gavin that even if there was a decision it may -- the decision may take a number of different paths.

One of those paths may be that the Commission is required to go back and reset the whole inputs and go through a whole process. Alternatively, there may be a decision that one of the inputs -- say for example weighted average cost of capital -- has been determined incorrectly, guidance provided and how it should be calculated. Then it can be used, for example, in price set paths.

From an implementation perspective, what that essentially says to us is that there could be a number of different outcomes, quiet a lot of variables. Realistically we're not modeling or we're not forecasting any revenue claw back or impacts in our forecasts or guidance because that would at the earliest probably wouldn't -- any claw back wouldn't be able to be seen and through until 2014, 2015, depending on timing.

Gavin Evans - *Energy News - Media*

Thank you.

Operator

There are no further questions at this time.

Simon Mackenzie - *Vector Ltd - CEO*

I'd just like to thank you all for joining us. Obviously if there's any further questions you've got our contacts with respect to media and also Anna with regards to investor relations. Thank you once again for attending and your following of Vector. I wish you all a good weekend and look forward to speaking with you all again soon.

Operator

This concludes today's conference. You may now disconnect.