Question and Answer

Unknown Analyst

[indiscernible]

Russel Norman

So the question was around the current asset sale program and opposition to the current asset sale program, and around PPPs. So around the asset sale program, when you're running a large current account deficit, what happens is that you slowly lose control of your businesses. Infratil is one of the largest listed New Zealand-owned businesses left. And so if you look at -- if you go to a, say, a large corporates meeting of Business New Zealand, which I do, you'll find that most of the people in the room are from overseas-owned corporations. And so we -- if you look at the New Zealand stock market, you'll find the same thing. If you look at what are the large economic organizations that are making a significant contribution to New Zealand that aren't overseas-owned, there's a small number of listed companies. There's SOEs, there's iwi organizations and there's co-ops. So they're kind of sticky. So we have this problem about drift of ownership. Now obviously, asset sales is but a small part of that bigger problem, and that's about the external imbalances I talked about. But if you look at the history of contact, you're going to see the same thing with this round of privatizations, there'll be a slow drift. The other side of it is that I think that there should be a partnership between those existing SOEs, which particularly Mighty River Power have some great expertise in renewables. And the private sector to have an export focus. My concern is that those companies become profit centers, purely focused on the New Zealand market. Whereas what we need them to be is export-oriented. We need Mighty River Power to have an export focus to the rest of the world how it's one of 10 leading geothermal companies in the world. It can export to the rest of the world and earn us foreign currency. And if the danger is that these companies like, say, the telecommunications companies or the banking sector, or whatever, simply become focused on the domestic sector and maintaining profitability in that sector for their shareholders, many of whom will be overseas. Whereas I think we need those sectors to be much more externally focused. So my concern is that we're taking it down the wrong direction. I mean, if I'm proved wrong, good. But we'll see. I mean there's a lot of other issues. The fiscal position of the government's a lot worse because of privatization. Treasury estimates that the government's worse by about by $441 million over 5 years because these companies earn great returns compared to the cost of debt for the government. And treasury's estimate, the difference between [indiscernible] is about $440 million over 5 years. In terms of PPPs, I mean I guess it's again -- and my job is to look after the government books. If we're involved in government, we've got to be prudent managers of money. And so the question is, when you look at a PPP, why is it cheaper? How is it cheaper? Is it cheaper for the government to do a PPP, or to just do it the usual way? And so that's my question, is how -- why would I do a PPP if it turns out to be more expensive as a Minister of Finance or a responsible member sitting around a cabinet table, that's my question. If I can do this thing the cheap way and I get as good a product, and as good a management of that product over time, versus an expensive way, why would I choose the expensive way. That's my question.

Unknown Analyst

Russel, can you just touch on what your -- the Greens' policy is likely beyond agricultural intensification?

Russel Norman

Sure. So I did a speech about this, smart green agriculture a couple weeks ago. You should feel free to look at. So we've got a, if you like, our #1 domestic environmental problem is freshwater quality. And we have got a freshwater quality crisis. Obviously, it's pretty bad at the moment because of the drought but it's a long-standing problem and it's getting much worse as time progresses. Aquifers are heavily polluted now. Some of the Canterbury aquifers have so much nitrate in them now that they are literally dangerous for babies to drink, literally. And so many of our rivers are highly degraded. Our freshwater ecosystems are highly endangered. And so the key driver of that is intensification of agriculture. There's just masses and masses of scientific papers about exactly that point. So if we say that we – that protecting biodiversity and the natural capital of New Zealand is important, and we know that this is the thing that is degrading it, then I think we have a responsibility to say, well can this thing continue to develop further without changing its ways? So do you have intensification of agriculture without downstream environmental effects? That is the great challenge. So the rural [indiscernible] scheme at the moment, that's being proposed that's subsidized, heavily subsidize by rate payers and tax payers. How do you have 20,000 hectares of new daring [ph], pretty the intensive daring [ph], because no one else could afford to pay for the water, without having downstream nitrification effects or increased nitrogen in the water downstream of that? And nobody has figured that out. So it seems to me we shouldn't be adding even greater quantities of nitrogen in particular to the environment without figuring out how -- we shouldn't be heading down a massive increase in intensification until we've fixed that problem given that we already have a huge environmental problem. So that's why we're much more interested in low-intensity models. So the low-intensity model that looks at higher value add, that looks at lower input costs, lower stocking rates that because you get lower input costs and higher value add than you can make as much money, that's what we're interested in. Just more generally, just the kind of -- if we do continue down this path of more and more intensification, we will kill the goose that lays the golden egg. I mean, the reason we sell milk power into China is they think it's clean, green and safe. Those 3 things go together in the mind of the Chinese consumer when buy New Zealand infant formula. They think it's safe for their kids. If we continue down the path of more and more intensification, we will lose that. And if we lose that, then we will fundamentally lose the advantage that New Zealand has.

Unknown Analyst

I guess I was just what your policy response [indiscernible] fix the problem is? Is it around quotas on nitrification? Or does this go beyond sort of irrigation and land usage?

Russel Norman

So we put out a big package about this at the last election. So it's a combination. So we need a national environmental standard on water quality, which we don't really have. We need a national environmental standard around water quantity, how much water needs to stay in the rivers. And then I actually think we need a national policy statement on intensive agriculture to provide some guidelines, because currently, it's a bit of a free-for-all, so there's no real guidelines around how to be a good intensive farmer. There are, but they're voluntary. So we think kind of like looking at on one side the environmental effects, and on the other side, regulating good practice.

Unknown Analyst

Russel, [indiscernible] sales, you've discussed the reasons why they're problematic from a fiscal point of view. [indiscernible] of that is that is that it's been official for to be buying up assets that are currently in the private sector. So is that part of your policy? And if not, why not?

Russel Norman

Because there's not much money. Yes. So it's not...

Unknown Analyst

[indiscernible] beneficial to do this in terms of money. So because you're saying [indiscernible]. So it must be a net financial benefit of buying. So why don't you do that?

Russel Norman

Well, I mean, fundamentally because we don't want to borrow more money in order to buy our private sector companies. I think that we...

Unknown Analyst

[indiscernible]

Russel Norman

Yes. Well, it's not according to me. The return's higher according to treasury. So treasury, we're using treasury numbers and our billing list tells us treasury numbers are wrong, like whenever he doesn't like what they say, but they are treasury numbers. And so that's what we're working on. But we're not of the view that we should go around nationalizing lots of companies or buying up lots of companies. We're very interested in partnerships between the private and the public sector. And our fundamental model with respect to this issue is the mixed economy, and I think the mixed economy is fundamentally the right way forward. But that doesn't mean we're going to flick off the stuff that we got, nor does it mean we're going to rush around buying lots of other stuff. I'd be very interested to see like what kind of partnerships we can develop, how the state can work alongside the private sector, whether through the SOEs or some other model. But I don't think the state should be going around buying up lots of private sector companies or well, any particularly.

Unknown Analyst

[indiscernible] price of the model. Do you think you [indiscernible] centered around the water pricing model?

Russel Norman

Yes. Again, that's the bit I left off, I'm sorry, in answer your question, which was that we have a policy around the water price. So currently, there's price on water in a lot of urban environments and a lot of industrial users in urban environments pay for their freshwater, irrigators don't. There is no price. And so we think that if you are believers in the use of price signals and market mechanisms, which we are, there should be a price on the use of freshwater for irrigation. Now the question is whether you hypothecate the revenue from that. I'm not a big fan of hypothecation just because it creates problems for the state. But you could, for example, spend a good chunk of that cash on trying to fix out the problems we've already got in terms of water quality if you wanted to kind of make it more palatable politically. But I mean I think that a price on water will drive efficiency within the sector and I think that's a good thing.

Unknown Analyst

[indiscernible]

Russel Norman

We've -- it's kind of parallel to the beta between the carbon tax and the ETS, actually. It's a similar thing but if you think about an ETS -- a carbon price, the carbon is carbon is carbon everywhere in the world. Water isn't water isn't water everywhere in the world. In fact, a drop of water in this catchment isn't the same as a drop of water in that catchment. They're un-tradable. So you end up with these very small markets because they can only be within the catchment. Likewise, a drop of water at the top of the catchment isn't tradable with a drop of water at the bottom of the catchment. You can't move it back up. So they're not very good places for markets when you have relatively short and small catchments. Now the Maragawi [ph] basin, you could argue, is a very large catchment and kind of makes more sense for a tradable system, though they've had their own problems over there. Whereas a lot of the smaller catchments here, the trading systems would be difficult, have high administrative costs and be very non-liquid. In terms of [indiscernible]. So yes, that's why we've tended towards just a flat charge. Just because administratively, it's a hell of a lot easier to administer.

Unknown Analyst

When you talk about [indiscernible] of the price of carbon that -- a higher price of carbon that's -- Quentin [ph], given what you've seen with ETS in Europe and here where [indiscernible] been turned on that you might sort of move to a carbon tax rather than [indiscernible].

Russel Norman

Yes, so the question was about carbon tax versus ETS, and the Green position on it. I mean, or policy has always been in favor of a tax rather than an ETS just because we think that's simpler and more transparent. It's an interesting debate. So on the one hand, a tax provides certainty to business, so you don't have the risk of a variable price on carbon. If anything, the uncertainty rests with the environment, and some ways. It's a funny debate. Whereas with an ETS, theoretically, if you have a proper and well-functioning cap and trade system, you set the cap, you let the price do what it wants and it's not your business because you're interested in the environmental effects and that's what the cap's meant to do. In reality, it hasn't worked like that because then you assume we don't even have a cap anymore. And so we've just ended up with this hopeless system that doesn't basically work. And so one way to go through would be to go, okay, we're going to tuck it out and we're just going to go with a straight carbon tax because then everybody knows what they're getting. Business gets certainty and there's clarity about the position. That's actually the debate that the Greens are having at the moment as we look to design our policy for the next election for those reasons.

Unknown Analyst

[indiscernible] third and fourth quarter?

Russel Norman

Say that again, sir?

Unknown Analyst

[indiscernible]

Russel Norman

Yes, though it has other kind of advantages as well in terms of efficiency of use. If you've got a certain quantum of water that's available for irrigation that the environment doesn't need and that humans in stock don't need, for stock water, then we want to make sure it goes to the most efficient use. Currently, it doesn't. It's first in, first served. Whoever's got the resource contained, gets it. That's not necessarily the most efficient use of that water and doesn't necessarily produce the greatest dollars per cubic meter. So a price on water will drive that. On the other hand, we also know that driving efficiency in the use of water has good environmental effects, provided the other regulatory framework is in place.

Unknown Analyst

And there's really not a [indiscernible] with this model?

Russel Norman

Well, there's 2 -- so you need to think about quantum of water and water quality, and they're connected, but they're not the same thing. And so I can suck all the water out of a river and destroy that river in the process, and I may or may not have downstream effects in terms of nitrogen contamination of water. So they're connected, but not directly connected. On the other hand, if I let lots of nitrogen into the system, where the -- however much water I'm taking, from a river or not, that's a separate effect. So the other side is, you can price nitrogen. That's -- and that's obviously the Taupo, the Lake Taupo scheme is doing exactly that. And so we're interested in that, but we focused on the upstream, on the water take at this stage.

Unknown Analyst

You commented on Australian capping the markets and what might happen to change the government. Given the, kind of political capital that fund the efforts to put into this [indiscernible] what do you think, practically, will be the solution they get to if they change governments?

Russel Norman

Yes, so if there's a change in government, what might happen practically. I mean, the problem, Abbott's got is that, he won't control the Senate. It's very unlikely he'll control the Senate. So the Greens and Labor will have a majority in the Upper House. Does he want to force a double dissolution election over the carbon tax, which, frankly, hasn't been controversial as Tony Abbott would've thought. And so Tony Abbott said it would be the end of the Australian economy. Well, the Australian economy hasn't ended, so far as I'm aware. But it is in trouble. And so, yes, I think he would be hard pushed to call a double dissolution election on the fact that he can't get the Senate to pass legislation to get rid of it. I think it's likely he would put legislation through the Lower House, just so he can be seen to be doing it, because he's kind of made such a big deal about it, but in the full knowledge it'll hit the Senate and get bounced back, and then he probably won't go to a double dissolution on it. I mean, I think that's probably likely.

Unknown Analyst

So does that mean the redemption happens, and all of them just stick to what they've [indiscernible] he's got this direct action program [indiscernible] Green army in the country?

Russel Norman

Well, I mean, what he might do is if he's stuck with it is, use the recycling of the cash differently, so there is money put aside for the clean investment fund, or whatever it's called and other stuff. So maybe he'll redirect some of the cash.

Unknown Analyst

How much do you think about sort of the product delivery trials and the return on investment trails? Is this to be a policy? So, like for example, in public transport, even [indiscernible] systems in the world [indiscernible]?

Russel Norman

So the question was about productivity, and then you moved on to talk about state subsidy. See, I would argue that you get productivity returns through the use of those state subsidies to mass transit. But getting lots of people out of their cars and off the roading network, you basically free up the roading network, which has dramatic productivity benefits for the whole economy. I mean, if you can't get -- businesses can't get around using the roading network during the day and at peak hour, in particular, because it's absolutely jam-packed with commuters and cars, then there are massive productivity costs associated with that. And you can't build motorways to solve those problems, because all motorways do is attract more car users. So if you build a mass transit system, where people feel like, "Yes, I can get out of my car, because it's cheap and easy to get to work by the train, or the bus or whatever," then you get dramatic productivity improvements across the whole economy by freeing up the transport network.

Unknown Analyst

[indiscernible] the fiscal cost of the new policies [indiscernible]?

Russel Norman

There's definitely -- I mean, there's a fiscal cost, in the sense that there's a transfer, so it is connected. If you're subsidizing roading -- rather, if you're subsidizing buses or trains, for example, then clearly, there's a physical cost. The question is about productivity. I think it's important not to equate the 2 things, because they're fundamentally different. So what we're interested in is productivity in the New Zealand economy. If we subsidize certain infrastructure in order to improve productivity in the New Zealand economy, I think that's a useful spend, even though there's a physical cost. Likewise, I mean, it's the case with so many things.

Unknown Analyst

Russel, what's your view on the resource management, as it currently stands?

Russel Norman

Well, God, I don't have the numbers off the top of my head. Very few cases ever get notified consents. Very few consents end up in the environment court. Very few of those end up going to court. So I don't have the numbers on hand, but it's a very small percentage end up in environment court cases. Very there's -- we need to put it in perspective. The RMA is fundamentally working in terms of dealing with most of the consents that go to the RMA. A lot of the consents that are contested are competing private interests. So if one farmer wants to dig a well to 300 meters and he's -- or 200 meters, saying his next-door neighbor's got a well at 100 meters, then generally, the next-door neighbor complains, and uses the RMA to do that. In the sense that you've got competing private interests over access to a public resource. So a lot of the cases in the RMA are competing private property rights. And we need a framework to manage competing private property rights. And whatever that framework is, lots of people will hate it and complain about it, because they will lose cases under it. So to think that somehow, we can solve the problem by somehow throwing all this out, I think doesn't deal with that fundamental reality, that there are often competing private interests around resource access, whether that resource is space in the urban environment, whether that resource is water or clean air, whatever. So we need an RMA framework like that. There are clearly also public good issues involved here, and that's what the RMA is supposed to be protecting. It's supposed to be about protecting the environment is one part of what it does, as well as mediating between private and competing interests. I don't think it does a very good job of that. And I think, primarily, it doesn't do a very good job of it because of the lack of natural instruments. It was never imagined, in 1991, that we wouldn't have a national policy statement on freshwater management until 2012 or '11, whenever it was promulgated. I don't think anyone imagined back then that we would -- that it would be left up to every regional counsel to make all the rules up themselves. So I think the lack of national instruments has been a major problem with the RMA. There's always things we can improve, I'm sure, with the RMA, and we'll go look at constructive suggestions but we won't -- fundamentally, we think they should be environmental bottom lines, and we shouldn't cross those environmental bottom lines. There's a bit of a philosophical difference there, so if you like, the government's framework is balance, they talk about balance. And so what they mean is, we'll trade off a bit of environmental degradation for a bit of GDP growth this year, and next year, we'll do it again and again and again and again. Which from one year to the next doesn't look that bad, but when you take the cumulative effect, you get very large-scale environmental degradation. So we think that's why it's essential to have environmental bottom lines, which you say we're not going to cross a national environmental standard on water quality. You can't do your development if it means that this river will fall below a certain level. So those kind of national instruments, I think, are essential to making the thing function properly. No one asked about management quality [indiscernible].

Marko Bogoievski
CEO & Director

Before you answer [indiscernible] regulation, I mean, you talked a bit about regulation in the context of agriculture. You probably know that Infratil is an investor in a few other sectors, including airports, public transport, energy and downstream oil. I guess all of those are broadly connected to competition issues, generally. Can you -- what do you think about the current settings across those sectors? If we have a Green labor administration in the future, what should we expect as private sector investors?

Russel Norman

It's a good question. So we've been kind of having an interesting debate with the Commerce Commission about some of their decisions, and doing a bit of analysis about how many they've turned down and how many applications to merge and changes, which seem to us, fundamentally anti-competitive. And generally speaking, the Commerce Commission, I don't think, is very hard-lined about maintaining competitive pressures in the New Zealand economy. So compared to the ACCC in Australia, the ACCC is much more hard-lined about maintaining competitive pressures than the Commerce Commission. Now, New Zealand's different, because we're smaller. So you look at a lot of our sectors, there's overall competition, telecommunications; overall competition, banking, some competition, but it's under the 4 pillar from Australia. So the 4 pillars have worked out a relationship. Electricity, there's obviously -- there's some competition, but there's limits on it. And so how do we maximize competition in a framework in which there's relatively few players, and I think that's one of the challenges for a regulator, like the Commerce Commission. And we would be pushing them hard on competition, because we think it's essential. And the reason why I say that, is that, I mean, if you think -- if going back to kind of first principles, if the external imbalance is one of the problems, then we need the domestic services sector to be as efficient as we can, so that those who are tradable aren't dragged back by the domestic services sector. So that's why some of the things Stephen Joyce has been doing have been good, around trying to improve some of the efficiency in the domestic sector, the non-tradable sector. And so I think that it's important we keep the pressure on the non-tradable sector around competition and efficiency, to make sure that the tradable sector has the best possible base to work from. Because if we don't deal with those external imbalances, then the whole thing is not going to work. So we keep the heat up around competition.

Marko Bogoievski
CEO & Director

Any particular sector views that you would have at the moment?

Russel Norman

No. Sorry.

Marko Bogoievski
CEO & Director

Would that pressure extend to the provision of government services to the non-tradable sector?

Russel Norman

Yes. I think that's a fair question. I think we need the public sector to perform. And I think some of the things the government's done around public sector have been good, and some of them haven't. Yes, I mean it's been interesting to watch national trying to engage with the public sector, and trying to get as much as possible out of the public sector. And I think we all want the public sector to be efficient, but we want to be careful that we don't sometimes make short-term efficiencies for long-term costs. Yes, but that's a fair point.

Marko Bogoievski
CEO & Director

Just, if I can hog the spotlight for a minute. Just on monetary policy, just before we let you go. And assuming, for the moment, that there was a change in administration, and depending on which David turns up in the other team, how do you characterize your monetary policy? I mean, I think you've been clear about a few things. What's not clear to me is, where the points of difference are with the labor policymakers, and how pragmatically you're going to resolve or compromise your portfolio position as sort of a secure policy understanding? I mean, what's the sort of things that's under debate right now when you're thinking about future coalition partners?

Russel Norman

Well, I think, what David Packer [ph] and I, in particular, but also David Conelith [ph], when he was more engaged in it, have tried to do is engage in the international debate. So the whole world has moved on monetary policy. You don't kind of get it in New Zealand, but when the -- when Lord Adair Turner, who's the head of the U.K. Financial Services Authority, which is the regulator of the banks, gives the most radical speech, I think, I've read in my lifetime about monetary policy, and about using helicopter money to service permanent government deficits and how that's quite a good policy for the U.K. government to use at the moment, I think it kind of blows your mind. I mean, I've grown up within a world of the post '80 reforms, where monetary policy was seen as "we have what we have," basically light-handed regulation of the financial sector, which mean they could engage in these large-scale credit booms, and we've seen it in New Zealand with housing, but elsewhere, it's been other parts of the economy. And now, the -- my goodness me, the world has changed. And so restricting the ability of the private financial institutions to expand monetary supply and to expand credit, is now very much at the center of the international monetary policy debate. And then standing alongside that is, what is the role for the public sector's use of expanding monetary -- money supply. And that, of course, is like crazy talk in New Zealand. So I'm the crazy guy. But that is the very mainstream debate. What is the role of publicly generated money? And what is the role of privately generated money? And how -- what should be the right balance between the 2? And we all kind of thought, well it should just be left up to the private sector to generate the money supply, to control the flow of credit, and we had this very weak lever called the official cash rate, which we tried to use to manage it, but it was very blunt, and it had all these detrimental effects on the broader economy. So what are the more sophisticated tools that we need to control credit growth, particularly into asset bubbles like housing? So I'm really pleased that finally, we're getting some sensible debate around loan-to-valuation ratios, countercyclical core funding ratios, and Labor and us are all, on a similar page this kind of stuff, and maybe even the government. God, that would be great, because I think we need them. So I think there's some really interesting debate around using those kind of alternative levers around controlling credit growth in sectors where we've got a problem, without destroying the whole of the tradable sector by driving up the value of the dollar, and that's the debate we should've had a decade ago. And what we haven't had in New Zealand, which is happening overseas, is the use of publicly created money, and what is the right place for that in a monetary policy framework. Obviously overseas are involved in very large-scale, publicly created money. Bank of Japan has gone -- I refer to you, the new governor of the Bank of Japan is radically changing monetary policy over there; of course, Ben Bernanke in the U.S.; and obviously in the U.K., yes, it's [indiscernible] as it's called, to the max. So yes, that's the debate I want to have. I found it difficult to have that debate in New Zealand, because the government's kind of going, "The Greens just want to print money," and -- but that is the debate that's happening internationally, and I think we should be having it here. We're having a fraction of debate, which is about how to focus on credit growth in sectors where we don't need credit growth. And I think Labor and Greens are on a similar page there. In terms of quantitative easing, I think the government's been politically effective in closing down the debate. So everyone's scared, except the Greens, to really have the debate.

Marko Bogoievski
CEO & Director

No, I appreciate you putting your views forward. I mean, if we're probably going to have to wrap things up shortly. I mean, that's a hard way to end, and that's a very open-ended question, isn't it? And I think part of the question is not just the substance of your policy but how it is we're going to bridge political divides, either between what looked like likely coalition partners today, or what look like people you'll never work with in the future. I mean, part of what we want to hear, I think, is that -- is an open set of listening on both sides. And last thing we need is sort of infringed positions that confuse the electric side. I mean, I think we've had the benefit of your time, you've been very generous making time in your schedule. And as I said to the audience before, I think you turned out -- we didn't ask you to speak in any particular way, so I appreciate the way that you've free-wheeled around the economy, generally, and certain sectors. And hopefully, you'll join us again at a future date.

Russel Norman

It's all nothing. Thanks very much for having me along.

Marko Bogoievski
CEO & Director

So it's a good time for a break. We've got 0.5 hour scheduled. Is that right, Chris?

Unknown Executive

Right.

[Break]

Marko Bogoievski
CEO & Director

Okay, folks. Thank you for coming back on time. I hope the first 2 presentations of the day, and I think, Paul, you did a fantastic job of just laying out some of the sector themes, and he's obviously adept at presenting quite difficult ideas. I think what doesn't come out, potentially, when you are that smooth is the amount of debate that goes on internally inside Morrison & Co., so a lot of those conclusions about which sectors have relative higher levels of interest, where have fair value lies, how do we allocate internal resources to drive business development programs. You can suspect and assume that there is a lot of debate.

And I guess, that's sort of what Dr. Norman was pointing to, where, at least, whether you agree or disagree or strongly refute some of his ideas, I think it's quite important you get potential future leaders out in front of this sort of audience. So that -- I'm assuming it's one of the factors you look at when you're assessing an investment in a business like Infratil. It's one of the things that we look at when we're thinking of allocating capital. It's probably the hardest thing to assess, right? The political environment. And generally speaking, we try to not put ourselves in a situation where we're making important assumptions based on a stroke of a regulator's pen or a politician's pen. So we would prefer to be in situations where market position or top-down demographic trends are sort an overwhelming variable sort of a sector analysis or valuation analysis. And hopefully, some of that will be drawn out during the day.

All right. So this is the overview. We've got -- I'm going to have a quick, sort of 30, 35-minute overview of the portfolio. I've got Lumo being presented after me, TrustPower, Z Energy and Wellington Airport. So it's a good cross-section of our portfolio. I think there's some common themes that you'll find out during the day. I mean, the one I'm trying to wrap around our overall portfolio is that, we are in a situation we've -- I think, we've got capability. And some of that extends to, what you hear today, it's what Morrison & Co. management capability, but a lot of it relates with the ability inside the investing companies, right? So if I was sitting in that – in your position, I would be assessing the CEOs that turn up later in the day for the quality of their ideas and their ability to execute and implement. So we think we have that. We think we get some credit for it as well.

Capability on its own is sometimes sufficient, a lot of times it isn't; you need access to capital. We don't get access to capital unless we communicate our plans clearly, and we enjoy the support of basically the people in this room. So whether it be on the debt market or the equity capital market side, we know that we won't be able to execute any of these ideas, particularly, for any long period of time, unless I get the support of people in this room.

So I'm actually -- today, it feels like we have the support. By and large, if we stick to the core essence of our strategies, and I feel like we'll get support. I think if we stray and do the old discipline thing, the support will most instantly evaporate. So that's my assumption, right. So don't expect us to do anything that's dramatically different in terms of putting equity exposed to some new climate that we haven't even discussed or mentioned or framed up for your consideration. So that's the first thing I'd say.

It's quite nice, isn't it, that when you've done over, say, 3 or 4 years, you've repositioned the business that you can afford to say that. I think we have done that. We've got the core assets, which still, to me, feel like TrustPower, Wellington Airport and Z Energy, and the business now in Australia, which has actually matured into an important part of our core business, where you've got some confidence about, not just next year's earnings, but the next few years' worth of earnings. And we've got views about the structure of the industries that they participate in where we can say there is momentum in the earnings. There's momentum in their cash flow, it will all lead up into a higher EPS profile. Even though we don't think of ourselves primarily as a yield story. By definition, for passing through [indiscernible] credits, you're going to get higher dividends this year. In this environment, we do understand it's not a bad part of an overall set of promises to investors.

As you heard today from Paul, infrastructure as an asset class is very much still on the heat map. Heat map's sort of a -- all we're trying to say is that relative to other investments, we still think Infratil is part of the key things that new investors are looking at. There's still being capital allocated to that sector. I think the other thing that we should say is that we do not generalize about infrastructure as a class, that's why we took time from -- in Paul's presentation to delineate between different sectors and growth, early stage, semi-mature and mature assets. I mean, there's a huge difference, isn't there, between a regulated utility and a startup energy business in Australia.

And moving with a [indiscernible]. Lumo, when it started, was not an infrastructure business, and now that we've pretended that it was. So we were using capability, that we had I guess, built over time by developing businesses like TrustPower in a market we think we understood really well, and we saw common elements that could be transported. And most of that was around wholesale risk management, by the way. So the ability to build a -- compared to the energy book, build retail channels, fill in generation capacity or peaking capacity behind it, those are sorts of things that we're happy playing with. That's why we had the courage, I guess, to do a startup energy business in Australia.

Again, not all infrastructure's created equally. Really, what is changing very, very quickly is the returns that are available from some of these assets. So even if, like us, we're clearly focused that sort of growth them of infrastructure, it's hard to ignore the sort of wall of money that's pointed at the core space, not so much because we're going to reorient towards of the core space, because I don't see that happening, particularly. But we know, I think, with one of our assumptions we're making, which we're happy to debate, is that capital providers are generally speaking dissatisfied with the returns now in their core mature space, and they're migrating their attention up through Core-Plus, or into even some fixture of assets in there. And that's where we'll start bumping into them.

So on the -- we can be operators, we are comfortable with owning assets that we've got. We know some sectors quite well, but we know that, in terms of new project pipeline development and new business development, external origination, we're going to start running into probably more players, with deeper pools of capital. So you have to work just that little bit harder, don't you, to the find that differentiated space. It's -- even in this room, a lot of people in this room are looking for excess returns. And in our world, it's sort of, that's how it looks to us, like we have to find either assets or opportunities that are smaller or offer the right [indiscernible], because there is a midsized transaction level where the wall of money isn't pointed at. Or it might be a sector's just overlooked, or it might be just moments in time that your information around your local flexibility gives you the ability to execute. And it's luckily there's enough of those to actually more than sustain a business like ours.

Having said all that, I think we -- if we were to look back at the way investors are interpreting Infratil's performance, I think we're getting credit for some of those first points, i.e. the earnings momentum and what's happening with the dividend profile. I don't think, particularly, the optionality that's available by refreshing the portfolio is reflected in the stock price, and that's one of the things we'd look at. So first and foremost, keep the performance going. Secondly, let's think about portfolio choices in a way which can get more confidence to investors. As I said at the start, regardless, we're going to maintain a conservative posture. I do actually think we've got quite a conservative stance, particularly relative to financial risks in the market, so we're not making assumptions about sort of the macro-financial environment, that leads us to take on either more leverage or more credit exposure in the group. That's our starting point anyway.

So that's the start of this presentation. So we know that, just in case, for those that aren't that familiar with the Infratil story, what do we mean by earnings momentum and DPS trajectory? Well, it's basically what's on this chart, the 2013 March number's there, they're essentially analyst numbers on the left-hand side. I think we're comfortably operating within that previous guidance, and that NZD 535 million per year EBITDAF number, just to remind you all was the only adjustment we really were talking about was discontinued ops, which is European airports, aren't included in there, and Z, we look at, at a current cost basis. You can see what the big movers are, Australia, which is the black space there. Infratil Energy, Australian Perth Energy have grown quite significantly over time. That's what happens I guess, when a startup business starts becoming more mature, basically feeling confident. We'll see what you think of Dean's presentation shortly.

As I said, the [indiscernible] numbers there's Z Energy, they're the historic cost numbers, that are feeding into the group. All down, I mean, you can see that sort of EPS profile, and I guess we're going make decisions about -- at the end of the fiscal year about where we take that, going forward. I suspect that's still got an upward pressure on it.

When that cash flow gets translated, I guess, it's sort of easy to, I guess, to convert a yield story into an Infratil stock price. Also, we think about the capital valuation of the business, and what's happening there. Now I think that chart on the top does show that there has been some over-performance relative to a couple of indices. I'm not arguing strongly that they're the only reference points that Infratil should look at. But we know we've done well over that period, in fact over other periods that you can choose as well. At the same time, our underlying valuation of our business has actually improved fundamentally. So even though that gap to underlying valuations is potentially closing, I don't think it's closed significantly. And that's quite a hard thing to measure out, because we don't publish an NAV, that's sort of looking at consensus analysts' estimates of NTA. And I thought some of the interesting comments that Paul made about valuation sort of do feed into an NTA analysis, certainly, when we're thinking about options going forward.

So what do we mean? So if we -- what I'm really interested in spending the next couple of slides on, is how do you practically implement sort of a research top-down view on what's happening in terms of infrastructure trends? So it's all very well, isn't it? You could take – so there's nothing commercially sensitive about your presentation, Paul, right? I mean, we could give it, really, to 10 organizations, 10 infrastructure managers. And I guarantee, you'd get very different outcomes, because some of the starting points are -- you will have some investors that have very cheap costs of equity and debt. And who are looking more at that core mature space, and they could probably write bigger equity checks on every single transaction. And you've got other niche players who, perhaps only play in a micro segment, let alone a whole segment like energy or transport. So we're sort of somewhere in the middle. I think we can take on construction risk, we can take on greenfield exposure, we can take on startup risks, as long as we're talking about a portfolio perspective, right? So there might be a scenario where you see a big allocation, or a big shift to development risk, but you'll always see it as part of our overall mix.

And I think what's interesting over the last couple years is that, the traditional rationale about holding infrastructure being sort of a non-correlated asset class that had defensive qualities, that maybe had inflation-resistant earnings, which was driving, I guess, the early first phase of infrastructure investing, has now moved a lot into it acting as alternative to fixed income investors. And we see that even -- it's happening so quickly, that when we're talking to some of these sovereign wealth funds that Paul mentioned, they haven't even reorganized around these trends. So you're still talking to a fixed interest guy about infrastructure opportunities occasionally, where you might be talking to a real estate guy, because that's the only private markets person they have on the team. So these guys are really scrambling to get their heads around how to deploy capital in this space. And I guess, we're putting a hand up and saying, "Well, it's actually a bit a more difficult than that," right? So even if you successfully acquire one of these beasts, you actually have to own and operate it, now as you make quite a lot of choices, even on an asset looks like it's relatively passive.

And we've got a couple of issues and a couple challenges. I think the challenge is, even if we wanted to, we couldn't really point ourselves at an asset that's going to attract the attention of one of those global players. We're not going to be competitive in an auction situation. One of the opportunities, of course, is that we've got assets in our portfolio that might be very attractive to them, so we have to make a decision about, is this a moment in time that needs to be crystallized? So would you sell some mature assets into that sort of trend? Or is this more of a situation where it's a combination of doing a bit of that, and taking on additional development expenditure and exposure? And that's sort of what we're going to talk about shortly.

And then last point about real assets, which is now sort of the word that folks are using for building direct investment capability inside their pools of capital. How long will it take, before some of the process paper core infrastructure is also not satisfying their return requirements? You see a migration to Core-Plus. That's one thing, I think, won't take very long, because we see a little bit of that already. I mean, Stansted I would argue, is very much a Core-Plus type of asset. It doesn't really look like a core asset. And how long is it going to take before you realize that operating a significant infrastructure business is much more than just putting directors on a board? I'm not saying, governments is obviously a critical part of successful investing, but actually, there's a lot of decisions to make, particularly when you -- what we generally find, the more people that are involved in the organization, the sort of choices and difficulty go and rise exponentially.

So some of our businesses, like [indiscernible] I'm looking at Scott, with thousands of people involved in it. Z Energy, thousands of people involved. Actually, much more complex to own and operate than smaller businesses, my perspective, [indiscernible]. And I think some of these funds are actually finding this, and they're talking to organizations like Morrison & Co./Infratil, because they generally, in this context, don't differentiate, particularly. They're saying, "Look, we like the fact that you've got some skills, you have some existing assets, you've got the capability to operate. It seems to me you're starting to lay the ground for quite a successful, either potential future co-investment options or future development options, because generally speaking, there aren't many folks that have that combination of skills." So it's a good trend.

Some of the specifics about return target. I think some of these multiples were mentioned at the start. You can see that we've just only had 3 sectors that we know pretty well: airports, transport and downstream oil. The pink bar is, really, what the analysts or consensus valuations on some of the existing assets we've got in our portfolio. So when Wellington Airport's at 10.5x, which generally trades at a discount to Auckland Airport, there's sort of the methodology I see in most of the reports. You can see that what's happened in Perth, there's the implied multiple on the future fund AIX bid. Stansted, which is the Manchester Airport Group, an industry funds management, that's the Australian investor that joined Manchester, New Castle and Edinburgh. So it's particularly those last 2 assets on the right. Characteristically, look a lot like Wellington, I think, probably are the best multiples. Edinburg is an airport, as we know all too well, competes with 2 airports in Glasgow. And basically, an over-ported U.K. market with Ryanair as a pretty important customer, and easyJet. So these are reasonable comparisons, I don't think they're manufactured comparisons, certainly ones that we think about quite a lot.

Transport's harder to get multiples on. There aren't many public transport businesses that exactly mirror, although the Grinda [ph] business, which happened in 2011 was a really strongly bid process, went for 10x. There's a little bit of manufacturing in there. So there's parts of their model that were a little bit different, and they had slightly higher mix of contracted revenues [indiscernible]. So there's maybe a little bit of a bridge between analysts' views on NZ Bus and what Grinda [ph] went for.

And then finally, the Z Energy, we'll talk about today oil fuels [ph], which was actually quite a difficult but interesting downstream business that was supporting the mining sector, it's in parts of rural Australia, but also had a network of retail stores. That was sort of a mix of new downstream businesses emerging in an Australian market where the majors were exiting not just retail, but also their refinery position. So and Chatagura [ph] is a big trading house that actually is looking for short positions in markets like Australia, and actually may have their eye on New Zealand for that matter and other markets like that, we have a dependable place to trade our position.

So that multiple reflects not just the value of oil fuels [ph], but probably the value inherent in the optionality of having that much volume to work with in the future if you're a trading house. It's a new feature and something that probably we didn't even contemplate when we bought Shell, that who might be a potential buyer in the future.

So required rates of return are really being bid strongly for assets with certain characteristics. I think there's a company that talks about with and without yields. There is still, I think, quite a strong difference for an asset with a running yield. So that keeps senior lenders happy. You will get that extra bit of rate of return of multiple expansion. But they are starting to get single-digit type outcomes in terms of equity IRRs for assets that you would've said we're comfortably sort of mid-teen-type cost exposures in the past. So again, question for us is, what do you do with that type of information? And this is actually happening in our local market where, I guess, Australia and New Zealand is more relevant from our perspective.

Some of these large pension funds, it's quite nice, isn't it because a few people in the room will have mandates from private investors that allow you or stop you from doing certain things. One of the best parts of the story is that some wealth funds and pension funds particular have quite restrictive mandates about greenfield exposure or construction risk.

So it does actually leave quite a significant mispricing in our view between if you bid big on take on construction risk, if you're prepared to start up a business, you actually give yourself the chance of actually taking that to a point of maturity where it becomes addressable to a much different and broader universe of the business. So again, I'm not sure if mandates going to change there because they're leaving I think a lot of potential excess return on the table by not participating in the space. But for the foreseeable future, development expenditure, I think, is still adequately compensated. So we don't see that pressure on folks that are trying to take on greenfield exposure or construction risk.

All right. So that's some of the views on what we've seen from having real conversations with investors and by looking at transactions that have been completed throughout 2011, '12 and the first part, even, of 2013. As far as when we're trying to construct our portfolio, first thing I should say, we're not quite as mechanical as this chart would suggest, right. So we try to communicate with our investment team about our future portfolio will be made of a mix of these sorts of businesses. I think their indicative allocation is the best guide of, if you look at 5 years from now, what you should expect in terms of the mix of the types of assets in our portfolio. And it might just pay to have a quick pause on some of the key elements of each path.

So I already say we're in that core-plus territory much more than we are in that core space. The single thing that differentiates an Infratil investment, I think, is that reinvestment potential. And I bang on about this like a broken record. And I know I've talked to this audience before about it. But it's the real reason why we might or might not consider holding onto an asset. So there's nothing like the value of having optionality of our own pipeline of projects.

So we'd like nothing better to have TrustPower fill out its development pipeline in Australian wind. We know that's -- as an example, we've got a way Snowtown 2, which is a $439 million Australian project, they're getting a lot of project and a lot of equity away at sort of mid-teen type returns. So that's a project that we timed completely, and we had the choice to leave it on balance sheet. We could have sold it, I think, beforehand. And the best thing of all is that the people that are overseeing the project are people that we know and some of them are going to talk to you later in the day. So you can form your own view as to their credibility.

I think there is always room for opportunism. I mean, you'd be naive to say that in a private market when you're dealing with chunky illiquid assets, that you have to reserve either balance sheet capacity or management capacity if we're looking at opportunities that turn up in short notice. What I'd like to think, though, is that we have those top-down views that already preface our thinking. So I don't think we'd get surprised when an opportunity comes up about whether we're going to act or not.

So we typically have a few conversations about an opportunity before it turns up, and biowaste was a good example. We've monitored the waste sector for quite some period of time, I think. Before I was at Infratil, Infratil was an under-bidder in the old waste management process. So it actually knew the sector reasonably well, including some of the people.

So we formed the view on that asset quite quickly, and we had a view on valuation and what you would do with it. We weren't successful in that process. It was sold to an offshore investor, CKI, who have made big investments in the U.K., big investments in Australia. And are a good example really of a low cost of capital player who's looking more broadly at, I guess, assets that have certain characteristics.

Now [indiscernible] I think it's quite a nice asset, particularly the landfill, but it's not a core asset, right. It's got a collections business that needs to be managed. It's got competing infrastructure and a very capable player in a 2-player market as demonstrated some characteristics that would worry you a bit. So really, that's neither here or there. I mean, I think it's a reasonable asset that a large player turned up from offshore, who you typically in the past would have said wouldn't have bothered. So one of our assumptions going forward is we would like to cover the home territory, but we would like to remain opportunistic, and I'll talk about which sectors that might mean. But we're not assuming that this is a free open field for Infratil. I mean, I think there'll be people that turn up that look at New Zealand assets very closely.

All right. Let's keep going. So what does our portfolio look like today? And either can we improve the portfolio or we can improve the portfolio. We think we can improve the portfolio settings using certain criteria. And I mean, like all these charts, they have the limited use, don't they? The bubbles represent the aggregate size of the business, or relative importance, with quite a sort of a trade-off between yield and growth rate.

Generally speaking, I'd like to see more assets in that early stage investment category. I mean I think in terms of laying seeds for a proportion of your portfolio to meet some of those indicative allocations I talked about earlier, you do have to have a constant program, don't you, of starting those sorts of activities. And personally, I feel better if we have 2 or 3 of those rather than just one of those. So it's not about single bits here. I think Infratil Energy Australia, which is that top right-hand corner, in all these charts, you always want to be in the top right-hand corner, right? And that's -- this thing is a -- and that was a start-up business. So that was a business that would've started in that bottom right that earned its way credibly through the top corner, and that's become actually an important part of considering where the Australian market is going to go in the future. Luckily for us, we haven't got too many in those bottom left-hand corners. I think European airports, we would put in there obviously.

And there's real question marks in conference, questions about things like bus, which I'll talk about, which is, some of them look like binary outcomes to us about regulatory structures in the future and whether you'll renew contracts and what the future shape of the industry will look like. Others look much more confident. So even though Z's in the mix there at a high yielding, reasonable growth type business, it's actually I think got lower confidence around industry structure, for example. And a lot of confidence about the sort of strategies it needs to employ, if it was to enhance its value, which is one of the reasons why we've asked that business to prepare for a sale.

If you look down that list of other parameters, we do know that even though we've got a nice internal pipeline to start with, and in general we've got internal cash flow, that external origination is still important. I mean, scanning markets, I talked about enviro-waste. We have looked at other assets, including terminal positions, storage facilities last year. We actually have quite an active view looking at potential businesses and didn't conclude anything. I know that in any case, the corporate finance parameters dictate the shape of your portfolio anyway, right.

So if you're sitting here wondering about practically how do you implement and sequence a shift in any of these parameters, the bottom line is we still have to maintain the support of debt capital markets, both senior managers and retail bond holders, and we have our own view about financial market risk. So I've already said those settings aren't going to change. And the degrees of freedom are quite significant still. We've got about $250 million to $300 million of capital we could deploy today into an asset that was yielding -- as long as it's yielding sort of 7% or 8%, you'd have that sort of capital to play with. I guess, the difficulty becomes and the challenge is when if you start an early stage business, you start eating into that flexibility and it puts more pressure on recycling mature assets.

So maybe no real secret about the parameters, but that's sort of the way we think about our current portfolio. So even if we did nothing tomorrow, I think this is actually quite an attractive 5-year forecast type of portfolio, which I think we can still improve on. So it's one of the things that I'd ask you to think about for the rest of the day.

So what is the basic recipe? So again, if you're communicating with either business units or you're looking at external origination opportunity, what's the 3 or 4 things you got to do to generate excess returns? I mean, we're not -- I've said already, we could do nothing and keep that portfolio actually looking quite reasonable for the next few years. But it's not the sort of reason why you'd buy stock like Infratil, right. We're talking about compounding high rates returns on a sustainable basis for a long period of time.

And that sort of recipe of any combination really of these 4 things, right. You can buy an asset well, like I think we have done with Z and hopefully can demonstrate. You can sell some of your more mature assets at valuations that are stronger than the implied look through value and your stock price or stronger than the analysts' consensus valuation. You definitely need to address performance and underperformance in particular, or you could think about what's the proportion of capital you want to expose into riskier areas, whether it be, I mean I've used emerging markets there. But it could be any risk-owned type asset.

And I think my current perspective on these 4 ideas were really, from this morning, we've asked the business, the Z Energy business to prepare for a listing. I mean, we want to give ourselves the option to list. We think there are other Zs out there. And the characteristics with Z were -- notwithstanding the fact that I talked about enviro-waste and CKI . In this case, Z was -- or Shell in that time, was quite a scary asset with a lot of exposure to scheduling crude, transitioning away from multinational business. And you had all the people dynamics to go with it. So and the face of it looked like quite a high-risk type venture. Certainly, not one that was easy for the PE [ph] player to do, and we know the trade didn't turn up. We got a banker in the room that was on the other side of the deal. And that's the way it felt to us, Mark [ph]. So when you looked at the opportunity before it sort of really came up in full. We might be able to buy this asset at a reasonable valuation, and we have the operational skill to actually turn it into sort of a more mature, more predictable business, which is I think we're starting to work its way towards. So can you do that again? If you can, I think you do get credit inside your portfolio, and you get credit from the business, and that's what our business development effort is about, right.

Can we sell assets at strong value add [ph]? Well, I think we're about to find out. We know that some assets are easier than others, and they typically -- the best ones of all are, aren't they, where you've got trade interest, private equity interest and perhaps a listing possibility. There aren't too many of those out there, but if you get all 3 of those things cooking you almost invariably have an ability to do what's implied in that second box.

And Z, we talked about -- but we are running a little over all of our assets on that criteria. Where would you get, perhaps, the biggest bang for your buck if you sold a mature asset? And sell, I'll use the term loosely. It could be a partial divestment of parts of a business, it could be introducing a co-investor. But whatever we did, it would have a view the future set of relationships. So you'll much rather prefer to form a relationship with a partner that we could develop into new external origination ideas in the future and simply just run a well-run process and sell an asset. And all that, I guess, is prefaced by we will do the right thing. So if we think there's a moment in time and there is an opportunity actually to achieve an extraordinary valuation of an asset, I don't think we'd hesitate to sell.

Fortunately, on the performance side, genuinely, we're down to the U.K. airports as being the only difficult assets in our portfolio. I feel a bit better about the chances of selling those assets today than I would've done 6 months ago, but I can't sit here today and say that they're sold. So what we're trying to do there is what's listed on that slide. And on this last one, which I think is worth spending a little bit of time on, so how do you actually talk about this without scaring the horses, right? So if you think you've got room and you're getting paid adequately for taking on development risk, how do you start weaving it into your portfolio without massively changing the seasons, which is what we would do. We wouldn't fundamentally change the material part.

And really for us, most of that is around looking for sectors that have these sort of strong tailwinds. I mean, Paul did a really good job of talking about a couple of them, including irrigation which we're going to talk about later. But irrigation, which sounds like a sexy idea and actually, there's no more hotter thing than water at the moment, still comes with fundamental risks, right? So when Vince talks about it later today, there'll be a lot of capital that's potentially available to be deployed. But we know that the macro for water isn't mature. We know that we don't have a particular strong insight into future dairy prices, for example. And we know that to get it started, there's probably going to require an element of underwrite or risk from somebody, whether it's Infratil or TrustPower or a party that we borrowed and picked from the public sector that we can work with, which is where some of those comments about public sector working together with the private sector become relevant.

We trying to position ourselves as a party you can work with on those sort of deals. And as I said, I think we do have to consider other geographies as well, but we would only do that in a sector that we felt comfortable with, i.e. one that you know that we've already been involved in with a partner that actually would help us take us there. And typically, that partner might have the financial capability and access to an exclusive asset, but still want the operator to work alongside them.

And so lastly I want to talk [ph] about really how to pull off, frankly, and we haven't actually developed the idea particularly, but it is on our minds. So we have got origination inputs looking at that space. So what can I say for now? So we've been thinking about these things for quite a while. I think there's 4 dimensions we think about: sectors we're involved in, geographies, private or listed and holding periods. And the purple is the question, the black is sort of the current asset, which I think, by the way, hasn't changed particularly. But I think there's some small print there that's worth talking about.

So core sector or general private equity? We think we're focused on energy, transport and airports. Our business sectors, things we know well. I think in some cases, you'll find that there's opportunities that are sort of adjacent to those sectors. We will look at them. We get a bit bolder when it's closer to home. We get more cautious when it's further afield. And I think in our home markets, we are interested in things like Canterbury, like irrigation, like the potential to work together with the public sector on any significant project.

And just probably this part is a little bit different from what we would've said 5 years ago where we had so much activity in our core, sort of traditional energy and transport and airport sector that you typically wouldn't look at other domestic activity. But the combination of fiscal crisis, the combination of big infrastructure needs, whether you're about Canterbury, for example or anything like that, or other irrigation opportunities around the country, I don't see why Infratil shouldn't look at some of those. If we can get ourselves inserted as a private sector player who's trusted by local government or central government, we will develop that. And the good news is that Morrison & Co. actually has a separate set of activity through the PPP space that actually introduces us to some of those ideas as well.

Unknown Attendee

Just a quick question about [indiscernible]. Do you have a strategic perspective on those safe [indiscernible] and assuming you have money [indiscernible]?

Marko Bogoievski
CEO & Director

Yes, we do. So the question was really about Christchurch and how we -- I think how we're positioning Infratil to participate, because really, that's all we can talk to, right? So it's no surprise that there's a slightly different view, when you talk to the folks in Wellington versus the locals in Canterbury, right? And then there's quite -- there's -- so Gerry Brownlee is saying something slightly different from what Roger Sutton [ph] would say and the CDC guys would say, versus what the council would be looking for. So we're really saying look, we are prepared to be a private sector investor in Christchurch. We're not really fussed whether it's greenfield or brownfield. As I said from the start, we can actually take on both those types of risks quite comfortably. We're prepared to take a long-term view, which is I think what everybody is talking about there. I'm not talking about building retail shopping malls, for example. I'm talking about other initiatives that -- core infrastructure in Christchurch. And I think the returns will be there because you have that massive fundamental need for capital to meet the funding gap that's there right now. We know for sure it's not going to be met by increasing...

Unknown Attendee

I think that the question is more about [indiscernible] evaluate the deal with these people that seem like [indiscernible].

Marko Bogoievski
CEO & Director

Not yet. But we have a history of doing deals with central and local government. That's my point, right. But Christchurch is such an unusual, massive, massive tragedy that I don't think we're looking to apply previous rules of thumbs. I don't know if we could do that here. It's not about that. It's about a very cautious approach, understanding some of the sensitivities and opportunities, and putting ourselves in the frame when a private sector player actually does want to participate down there. So again, I'll just think that will come out later in the day as well in other presentation. But I'm actually hopeful about Christchurch, and I'm hopeful about the potential for these quasi-infrastructure opportunities to occur in New Zealand, much more today than I would have been, say a couple years ago. Which is why sort of the geography question is actually quite modest. We still think we're Australasian focused. So even though I said before emerging markets might fly in certain scenarios, 95% of our origination activity is still closer to home. And you can see there the preconditions we would apply anyway if we decided to stray. But we still think we're private market-focused. We still think control and influence of assets is the way to impart operating skills. I guess we've opened the potential for P2P participation, but frankly, we can't see any publicly listed entities that look straightforward to a both acquirer position and then seek a path to control. So that one looks quite -- that looks quite clear. And that hold period, I really -- look, I'm not -- we're not, for a minute, debating our sort of long-term orientation. It's simply that we've learned a lot, I think, with the Snowtown 2 experience where when you've got this dynamic of people paying out for mature assets or constructed facilities, we're thinking very differently about our ability to take on the construction risk. So if you're prepared to do a little bit more of it, what might that mean for the shape of your future portfolio, and what does that mean for the value of the options in our business. And it's -- by the way, it's not just in [indiscernible] we talked about wind, irrigation. We have energy assets in Australia, we have portfolio options to construct generation facilities, for example, which is not something that asset players would do in that market. In airports, we have, you will see later on when Steve's talking, a master plan that's actually quite demanding on capital spend, which we can time. NZ Bus just completed a big program of fleeting -- re-fleeting new buses. Now that's, you might say, is not usually complex, but it's actually exactly the sort of activity some investors still won't participate in. So we think we're doing more of that in the future, not less. And if we do it right, I think we'll be able to actually add a lot to the sort of core returns from a material part of our portfolio.

It helps to get specific. So if we're talking about refreshing portfolio, this is a bit of a sort of a snapshot about what you should be listening for when the CEOs are presenting later today. And I appreciate there's not great PowerPoint framing of the slide which is why we've got the printed handout, sorry Monty [ph] so let me know if you can't see something here.

So trust our, to state the obvious, we've got 40% or more of our portfolio are very attractive free cash flow yield, even though it's taken on a bit more leverage now to commit to the Snowtown 2 project. The fact that Vince had the ability to either build the project on his own balance sheet or sell it beforehand and the people he was talking to knew exactly that, gives you a lot more strength, doesn't it, than being just a financial developer, who can only take it to a certain point and then have to talk to a third-party that's got the deep pockets, or has to rely on a project finance market to be available, for example. Particularly none of those considerations, we worried about too much because we know we had the capacity to do this thing. But what we also know is that Vince can't do 3 of these things, right. He might be able to one and bit or 2. So the good news is he's got the pipeline. The bad news is that we have to skim the secrets right, selling the right assets, perhaps to more mature investors or investors that want more mature assets is going to be one of our things that we're going to focus on. And actually, post the mixed ownership model, post the [indiscernible] enterprise is being privatized, if we assume for the moment they will be, I'd say if you're looking at a potential future buyer of TrustPower, you're going to have a market that's much more receptive to that type of asset than you would have today, right. So let me get this straight. There's 0 plans to sell TrustPower today. But any rational player who's looking at a privatized market of 4 or 5 state-owned energy players that are now partially owned, it's going to be a very different environment for TrustPower than what it is now. So fundamentally, we're big supporters of the mum process, not because of the discipline on pricing and capital, but it also creates a more fertile environment for long-term valuations around TrustPower.

Z Energy. I've got a slide on Z, so I'll talk about the listing separately, if that's okay. Wellington Airport also delivers a slightly higher free cash flow yield. Obviously, it's got some new dynamics at the moment around -- if we've got a master plan that's quite demanding on CapEx, what should we assume on the regulatory front? So Steve's going to spend, Mike, is Steve in the room?

Michael John Bennetts
Chief Executive Officer of Z Energy

Yes.

Marko Bogoievski
CEO & Director

He's going to spend most of the time talking about investment and the potential assumptions around what the comcom's [ph] been saying and what the regulatory environment could look like in the future. But actually, the very attractive asset in our portfolio, we're able to group its earning from a tax basis because we own 66% of it, and it generates a sort of attractive running yield, with positive outlooks, GDP plus type outlook.

Lumo, I would say, is probably still the star in a way. It's -- I wouldn't have -- I mean hard to say that 2, 3 years, where we've got most of our heavy grilling over why are you in this businesses. It was consuming free cash flow and competing against what look like very sophisticated players. But hopefully, when you hear Dean talking later today, it's not a business that is mature by any stretch of the imagination, but it's got to a point where barriers to entry for new players have particularly risen considerably, so we don't expect to see a lot of new players in the market, that's now the largest of the second-tier players. And it's clearly one of the important considerations on their potential future consolidation model in the market. In the meantime, it's actually growing its organic business strongly because it's got some unique proprietary channels that are actually driving quite considerable acquisition leads. This is an asset that's changed complexion fundamentally over 2 years, and it actually is generating decent earnings.

NZ Bus, we haven't got Zane talking today, not for any particular reason other than agenda management and time management. As I said to you earlier, it's still -- you heard Dr. Norman talk about emphasis on public transport. Just about looking at every mega-trend top-down variable for public transport is positive, I would argue, whether you're talking about urbanization or concerns around climate change, or flexibility say that a bus fleet would provide relative to a much more capital-intensive rail network.

But we have to contract with a local entity, right, a local authority. We know that that's a process that's been defined with new regulation that's being passed at the moment. We think that legislation is going to be positive in terms of the way it allows room for returns to be earned by the best operators, by particular operators. And we'll confirm whether we're really affected in this asset or not when we've finished the process, sort of stop making predictions really around public transport. I'd like to get excited about it because as I said earlier, it's hard to find decent assets. And that generally could be around for a long time in our portfolio or could be around in a short time. It's one of those situations. But generally speaking, I think we're positive about the way the regulatory environment's unfolding, and we think the macro variables are really favorable.

Perth Energy, which Dean is not going to talk about later today, that's a single business, really focused on Western Australian market, which is different regulatory market. Only has commercial and industrial customers because they have deregulated their private residential market yet. So it works on quite simple metrics really. You've got a very, very effective generation asset, probably a less valuable retail business, but the 2 put together actually, fundamentally, are a nice package. So we've often thought about whether a business like that would be more valuable to somebody else, but it's one of those businesses that you don't mind holding either. So we are committed to leading that business executed strategy. But again, we do think about the relevance of being in the Western Australian market for the long term.

And Infratil Property, we don't -- we never talk about, right. But actually, we only set up this business because a lot of assets that we own had real estate embedded in them. Bus was a fantastic example, was a [indiscernible]. Z was an interesting mark. I think there was a lot of value let the freehold portfolio when it transacted, and it was pretty clear. But regardless of whether you own those assets or lease them or I'm not really talking about finance alternatives, I'm talking about real private market property development options, and that whole new and [indiscernible] which our own guys did, by the way, which Paul showed a photo of, was basically a bus site that was traded with the council, and we used our property development expertise to actually help them build a facility that is going to be quite important to the local community.

So we've got property returns. It's buried in the middle of our business. You'd want to think that. I think you want to know that all our freehold assets are being optimized in that way. And also deciding should it be a bus site or should it be a health clinic, and in that case, we'd be offering health clinic and probably a set of apartments in the future.

All right. So as I said earlier, I mean, we've sort of talked about valuations, sector views. I think we talked about capability, and we are confident that we were not -- areas that we look different from other investors. But again, all that's a little bit academic if you don't have the capital flexibility in your balance sheet, right. And so today, I think we've got about $250 million to $300 million of availability. So that assumes holding everything else constant around, say, assumptions around buybacks or big capital programs. It also assumes we hold about $150 million just for liquidity management. So when you own energy businesses in particular, I think those liquidity buffers are actually real. So it's quite a tight constraint in our business. We do need to hold about that much. And it also assumes that if you took the $250 million or $300 million you've invested in a new area, that had a running yield as well. So if you buy an asset that's more of a start-up characteristic, you can assume that, that $250 million is not the number you're dealing with anymore.

So that's roughly the current parameters. We are fortunate, I think, that we get the support of the bond market. Our average rates today are actually much tighter than we were even a year ago. And we are, today, looking at the potential for a longer date of issue, a senior bond issue, which some of the guys are working up. And as we're getting some decent feedback on, we'll see where that goes to. We're not committed to that yet.

And at this point, at least in the 5 or 6 years I've been around where the combination of factors, right, the announced views on Z, the importance of portfolio rejuvenation, the access to capital suggests that we've got a divestment bias in our portfolio. So we will have capital to deploy and important choices to make about whether the buybacks or internal projects or external origination make sense. Sort of a nice problem to have, and it's not always present. The chart on the right gives some sort of maturity schedules for the group, which is now getting into quite a nice long-dated average duration.

I won't go through this, but when you get a chance to have a read of it because it focuses more on the asset contribution to the capital management equation rather than, say, our views on the sector or our views on a particular trend in regulation, for example. And you'll see we're sort of grouping them the way we think about them in terms of yield characteristics, growth characteristics and future potential and development pipeline.

Okay, let's quickly talk to Z and we'll wrap things up. We announced this morning that alongside the guardians of the Super Fund, who have made the announcement, particularly the shareholders of Z have asked the management to prepare for a listing. As you well know, the people in this room, there is quite a lot of work involved in doing that. We do see an opportunity to particularly float this business towards the middle to the latter half of this calendar year. And if you want to give yourselves a chance of doing that, you particularly have to get started now. So that's what got us -- that obviously doesn't lead into a commitment to do anything other than prepare for a listing. We're a March year end. So we report our fiscal results in May, as you know. We look at the traffic in the IPO schedule, they look like quite a busy year. So we're sort of flagging a willingness to consider like a July to September timeframe, all other things being equal.

And why is this coming up now? I think it's surprised us, really. I'll be honest. I mean, we did not -- we had no contemplation, really of even a potential listing in this timeframe when we bought the asset in 2010. Now we've looked at the amount of the work, particularly those 4 bullets that are up there around transition risks, for example, and building capability in some of those new areas. Rebranding the investment, which again, was a big exercise in and of itself. We looked at that and said actually, that's quite a full program. And I think it's going to take quite a while to get the full value demonstrated to us, let alone being able to talk to the public about it. But as you got through those big early risks quite well, we've actually seen now enough out of the rebranding program, the retail reformatting to have confidence about talking about the benefits of that program.

There's still work to do, I think, around supply and distribution. So it's not like it's done. It's sort of halfway through. But we think it has been derisked. And it's more suitable now for potential public investors, and that's what we want to explore, really. Either way, we're going to remain -- or our intention would be to remain significant investors post-IPO, that's why we've talked about an indicative 40% to 60% sell down. And we're talking about being coordinated in that sell down. So we're having the same residual holding as the Super Fund.

All right. We'll get into Q&A, but before we do, here's the things I'd ask you to think about today. Now we think we do give you and do offer some attractive growth options, but with an ability to sleep. We think that the next phase of the cycle, if you believe half of what Paul talked about and a little bit of what I talked about, is the sort of the characteristics of things that should suit Infratil, should suit Morrison & Co. rather than a different type of investor in this space. I think we'll be pragmatic that talks to the opportunistic approach on things locally and the really hard-nosed approach around things that are not inside our core, and we'll be conservative. So we don't -- none of this is meant to imply we're relaxing on financial metrics, credit assumptions, access to capital in the future. We're not assuming any big change. If we perform, we think we'll get the right to come and ask you guys for your support. If we don't perform, we won't be asking, and you'll probably be talking to someone else anyway. So fundamentally, the core approach to investment's not changing and we do see it really entering a very exciting next phase. And hopefully that's the flavor you get when you see the next 3 or 4 presentations.

Now if we get into some Q&A. How much time have we got left? Well over. Okay, good. Terrific.

Marko Bogoievski
CEO & Director

Won't be the only chance to ask questions, but I'm happy to take a few now. Mark? Can you just wait for the mics, please.

Unknown Analyst

Just on Wellington Airport, you've highlighted the current multiple gap in terms of what we're looking at if this is what transactions are. So is your view there in terms of crystallized net value on a 10x, 14x into 14.5x or why won't this crystallize into the 3.5x multiple spread now?

Marko Bogoievski
CEO & Director

Well, you could. I think the question is more how long is that option available for, right? So our current view is that, that's not something where we need to put everything else on hold, run a process today to close that gap, right? So and that's the reason why we're not doing it today. There's also, I guess, our own internal views of the value of that business and the ability to grow its earnings. So what it tells me is that we're a little bit more bullish than the average market investor. The real question is, are we more bullish than the big private pools of capital that are coming in here? And we've also got a current investor, by the way. So even though we don't really have formal arrangements with the Wellington City Council, we actually take that relationship really seriously. So their view is they hold 33% of that asset, their views count as tax views and trust by our account [ph]. So we can't say we're in business of doing current investments with local and central government and then not take their views into account. So there's a bunch of reasons why you might not do something to straightaway with Wellington Airport. Other questions? Mr. Swanepoel?

Grant Swanepoel
Deutsche Bank AG, Research Division

Marko, could you just talk to why it's only 40% to 60% selldown of Z when potentially this could show how you exit good investments?

Marko Bogoievski
CEO & Director

So is your question, why isn't it 100%?

Grant Swanepoel
Deutsche Bank AG, Research Division

That's correct.

Marko Bogoievski
CEO & Director

Well, there's 2 reasons, really. I mean one is, I think we have a view that the job's not done. So I like the idea of some of our equity being exposed to the second and third legs of that investment program in that business. So I've said earlier, it's sort of midstream in its business strategy, but derisked. So there's that. And so relative to the other options, I think that still looks promising. Kind of suppose it's just the pragmatics of an offering in this sort of market. You've got the aggregate size of that vehicle. I think it does help to talk about investments and say that the foundation shareholders aren't completely exiting. And this is why, because we still believe there's a story here. So those 2 things together tell me that that's an interesting spot to start.

Grant Swanepoel
Deutsche Bank AG, Research Division

Can I just continue on your first answer?

Marko Bogoievski
CEO & Director

Yes.

Grant Swanepoel
Deutsche Bank AG, Research Division

In terms of a full exit, if you don't exit, are you not leaving some sort of overhang that when you do want to exit the market then thinks that it's not x-growth?

Marko Bogoievski
CEO & Director

Look, sort of that's the question you never can fix, right. I mean, the dynamic that you see in a lot of other stocks due to the large residual shareholding from a controlling investment. So suffice to say, we think about that relative to the other 2 factors I talked about. At the moment, the first 2 things seem to dominate the second concern, in my view. That's a more pragmatic perspective. And if we're proven wrong, I mean, I guess we're still listening, right? Mr. Bode?

Robert Bode
Jarden Limited, Research Division

Just following off on that question. Does your wish to stay in Z Energy ideally, does that preclude you from taking a big price [indiscernible] if they decided to do the same thing in New Zealand?

Marko Bogoievski
CEO & Director

No. No. I mean so we always ask the company to do is prepare for a listing. We haven't said we're ruled out every other option for our business.

Robert Bode
Jarden Limited, Research Division

And the Super Fund would also consider selling?

Marko Bogoievski
CEO & Director
Well, I don't want to speak in behalf of Super Fund. I mean, I think that's a question better to ask them. We're running a bit of short time. So maybe I can answer one more question and then we'll let the other -- Dean get into his presentation, if that's all right.

Question and Answer

Unknown Attendee

Dean, you talked about generation being oversupply, which is, obviously, very good for Lumo for some time. I mean, how long do you see it before generation capacity will be required and mean expansion for generators?

Dean Francis Carroll
Former Chief Executive Officer

Yes, well, the [indiscernible] which is probably the official state view, doesn't have really substantial generation targeted before the latter part of this decade, perhaps some would argue even nearly into the next decade, depending on how different scenarios plan out.

Unknown Attendee

And in New South Wales?

Dean Francis Carroll
Former Chief Executive Officer

It's across the board, yes.

Unknown Attendee

And one of your second-tier competitors, APG, has run into speed wobbles in the last year, with their growth coming off and bad debt blowing out. How's your experience, bad debt experience looking?

Dean Francis Carroll
Former Chief Executive Officer

I guess there's 2 comments. One is the speed wobbles. A little bit to my thesis, I think, we have got a little bit past that now. To bad debt, we're not seeing a blow out to that extent. But across all utilities in the space in Australia, we're seeing significant uptick in hardship as the economy there slows down. And so the -- and the credit space is very challenging, so we'll continue to put a very significant focus on that. In Australia too, the rules around dealing with credit are very much more prescriptive than they are here, so that just means we have to be very attentive to following prices as carefully as we can, and we put a huge effort into that.

Unknown Attendee

Dean, are you able to give us any color on your systems, how scalable they are? What's the quality analytics coming out of it? Are they able to deal with new variable pricing regimes in Victoria?

Dean Francis Carroll
Former Chief Executive Officer

Yes, we -- like everyone else, we have to bring in variable pricing by July. We believe that won't be a problem for us. Systems in general, as I said, we're making some investments this year in CRE. Our core system is for purpose, at present, could be better. But we are confident and indeed, to date, have maintained all compliance with regulatory requirements. And as I highlighted, that's no mean feat. So we can continue with the system we're on, but equally, like everything else, we'll keep that under review as well.

Unknown Attendee

And in terms of scalability?

Dean Francis Carroll

Former Chief Executive Officer

Look, it's -- within the growth parameters that I've talked about today, we believe that we don't have a problem. But again, we will assess that we look at our growth trajectory going forward.

Unknown Attendee

Just got a question, looking back on your experience in New Zealand. What are the key differences between operating in the retail business where you are now versus overcome Genesis [ph] days? Maybe even touch on cost of service systems?

Dean Francis Carroll
Former Chief Executive Officer

Yes. The scale of competition is much greater and that's evidenced by the tune statistics, which New Zealand's not a low tune market, it's right up to here, but Australia's ahead of that. And -- but the other thing, I think, is the size of the opportunity, particularly for a challenger brand, that there is a lot of room grow. It's a big place. And if one regulatory rating doesn't suit us, as I've demonstrated today, there are 2 or 3 other places to go, and so we can choose where we go. We can choose what segments of the market we choose to go after. And so I think size of opportunity and intensity of competition are probably the 2 major things that are different.

Unknown Executive

Maybe there's not -- is there one more question? We might end up here. Thanks, Dean.

Dean Francis Carroll
Former Chief Executive Officer

Thanks very much.

Unknown Executive

We go on with the break now for lunch.

[Break]

Vince James Hawksworth
Chief Executive Officer of Trustpower

Okay, welcome back everybody. Mark's just given the nod and suggested that we get underway. Time is of the essence. And I'm sorry to drag you out of that beautiful Wellington sunshine because I know how rare it is compared with the sunny Bay of Plenty.

I guess my presentation today is really about the fit that TrustPower has with all those things that Marko was talking about this morning regarding what does Infratil look for in its investments. And I think we fit very well. So we'll get past that one. And I'll talk a bit about TrustPower in New Zealand and Australia and how we think about our business.

We've got this overarching goal. And the overarching goal is all about growing TrustPower from being that successful New Zealand electricity supplier to a leading supplier of utilities at home and beyond our shores. And before everybody panics too much about the beyond our shores bit, we're really talking about doing that to create a superb customer experience and great returns for our shareholders, and we're doing it in New Zealand and Australia.

And I think the TrustPower story is really about how we've been able to take really solid core IP and execute that in other related markets. And we'll talk a bit about wind in Australia, and I'm going to talk a bit about irrigation. But of course also, I'm going to cover off our core New Zealand retail generation business.

So my agenda today with all of this is to try and emphasize that TrustPower has a whole series of points of difference, both in New Zealand energy markets, in irrigation and potentially water markets and in

Australian renewable energy, and that those points of difference give us a distinctive investment for growth and performance. And I guess that's even more important to me and the team at TrustPower when we are, I guess, being used as a bit of a benchmark against a bunch of guys that are coming to market over the next 12 months. We'd be pretty keen for people who understand that we're not all made of the same stuff.

And just to emphasize that point just because we love this graph, so we put it up all the time, it appears that the threat of partial privatization helps TrustPower, in the red, up at the top there. This is to December, so this is -- includes the half year results from our competitors and adjusted for our own results. Mighty River obviously showing some step-up and then others lagging a little behind. But I would note that, that doesn't include investments that haven't yet been commissioned. So in Mighty River's case, Ngatamariki, Te Mihi with Contact. And clearly, in our case, Snowtown 2. But we want to stay up at that sort of level, and we're quite happy if the others come up there, because that means that they've improved their businesses.

So what does TrustPower look like in 2013? What are we doing? And on this slide, I'm really trying to touch on so what are the catalysts, what are the things that we think about when we're trying to do our thinking around our business. So we have a catalyst that is our electricity supply overhang. We've got increased retail competition. Consumers are becoming more accepting of change, and I'd note this morning that Brent Layton at the select committee said that they didn't think there was much need to continue to invest in what's my number because consumers have now got used to the idea of changing their retail provider. Now we think that consumers have accepted changing provider. We benefit from that at times.

The value of water is increasingly becoming linked to New Zealand as a protein exporter. And the Australian renewable energy target in carbon pricing is a driver that we see there. And Dean made the point that the target hasn't been reduced even though load growth in Australia is slower. So actually, in gigawatt-hour terms, it's remained the same. And as a percentage, it's likely to be, if all of those gigawatt-hours are built, nearer to 25% by 2020.

And that means that what we -- the way we look at our business today is in New Zealand Generation, we'll be holding our options because there's not much opportunity to build. In New Zealand Electricity Retail, we're going to be focused on retention and growing our business from where it has been. We see the telco part of our business adding value through bundling, and I'll touch on that. New Zealand storage of water and the delivery and marketing of, we see as a great opportunity, and Australian wind development. And just at the bottom there, we've put down some of the things we've done over the last few years and then some of the things we're completing. And that currently means that our scale, EBITDAF scale is made up of those different components. So generation, retail in New Zealand, some wind in Australia, a little bit of irrigation and not much in terms of other products.

So what might 2023 look like? Where do we think we might be heading over the next 10 years? And I mean, casting out 10 years forward is just a guess, isn't it really? But it's about where -- it's about how we're thinking about where we're going. So we know that energy growth and GDP growth are decoupling. We all know about flat demand, so we accept that that's likely the way of the world. We know that customers are becoming more receptive to sophisticated propositions, albeit I think today in the electricity sector, we've thought about it as data. And I've said in other presentations I don't think this is about the data, it's about meeting a customer need. And my comparison is many of us do Internet banking. I've yet to find a person that ever pushes that button that says, "Click here and download all your transactions into a spreadsheet." Now maybe in this audience there is someone that does it, but I guess what I'm saying is it's not the data, it's the usability, it's the benefits, the consumer benefits that you can get is important.

We see the cost of renewables reducing. So this morning, there was a talk about China and the effect on wind turbine process. I think that's real. I think technology change makes that real. I can see stranded fossil fuel assets clearing in that sort of scenario, both in New Zealand and Australia. And interestingly, the response in Australia to the continued build of wind is you see people shutting thermal units, ground coal thermal units, which is what is supposed to happen. Water trading, possibly the Australian RET gets extended. If it proves to be effective in meeting their targets, it's got bipartisan support, could well be an extension of that program.

So our scope out in the future, we'll still be a New Zealand utility retailer, but we'll be increasing our product mix and we'll talk a little bit more about that. We'll be in New Zealand generation development. We still think the options we have at Kaiwera Downs and Mahinerangi for wind are world class and would get built and will get built. We will be in irrigation, and I'll touch some more on that. And we will be in Australian renewables.

So what do we look like then? Well, it's a bigger bubble, and we'd hope so, wouldn't we? But I think the important thing there is we start to see some real contribution through the Australian wind growth picture. And we've been relatively conservative with this and also in irrigation.

So New Zealand retail. It's a lot cheaper to keep a customer than it is to get one. And so Chris and the team have a big focus on retention as well as acquisition strategies. We've been pleased to be able to continue to beat the market, if you like, in terms of losses. So lose a lesser percentage than the market's churning. And we think that's a lot to do with our service points of difference. Certain feedback we get from our customers is very positive about our ability to solve their problems. We think there's an opportunity to improve some more by focusing on our brand values and communicating more -- them more strongly. We know our bundled products have worked, so a telco electricity customer is half as likely to churn as a straight electricity customer. So we've had benefits come out of that. And we're really focusing now on segmentation, both at a geographical lifestyle customer need and demographic basis, because we see an opportunity for us to build towards a world where we can treat customers more as individuals or as individual groups.

But we have to focus on acquisition. It's been notwithstanding the whole churn is here to stay. I don't think we'll see a return to the levels we enjoyed in the early 2000s. So TrustPower thinks about this future. We think mixed ownership will be good because for those businesses to perform in an environment where there is little opportunity to build new assets now or at least new assets that are going to be value accretive, then they're going to have to look at 1 or 2 things, which is costs and price. And there's only so much cost you can strip out of a business. So we expect that retail profitability will be a big focus in the future, and that creates an opportunity for TrustPower and potentially allows us to also start to look at the urban markets rather than just the regional markets. We think there's an opportunity starting to open up there.

But that requires us to do some work on our brand, our channels and our products, and we've got that work underway. We need to look at how we package our energy and telco products, and we think that there's an opportunity for us as an early adopter of fiber rollout. And I'll know that better when Chris's team connect me next Friday. And I'll tell you whether it's an opportunity or a pain in the bum. But the -- I guess the reality is that fiber is something that the bigger players are talking about being 18 months to 2 years away from being ready to do. And we think we can steal a march in some of our regions by getting in there early. And it's good for our cost base.

So we'd like to think that we're returning over the next meanwhile, next 2, 3 years to a sort of 220,000 customer-plus type of range. We think we've allowed the lid to sink to a certain extent with both competition and our change of system. Our systems are working really well now, and we think the environment's right to start building again.

Our generation business, well, we've got a good pipeline. But as I say, I don't think we'll be moving to build it very soon. So what are we focusing on? Last year, I talked a little bit about our focus was very much how do we improve what we do internally because it was emerging that we won't be able to build anything. And we've really got our stakes high in that space now. We've had this sort of $50 million of PV by 2015 target. At the moment, we spend about $3.5 million in that space and we've gained about $10 million of PV. And we will continue to do projects. And these are small projects. Some of them have enormous returns. In fact, I don't think any of them have had returns under about 25%. And so that's really galvanized our team in our generation business to look to things that add incremental value. We'll commission Esk Hydro midyear. That's all running fine. We're going through our asset management plan, AMP, sorry about the acronym, and really make sure we're focusing on the higher-value assets that make us the most money.

We're certainly focused on efficiency, delivered dollars per megawatt-hour and how much we gain when we generate. So our assets are really suited to hitting peak pricing, and we're putting a lot of focus on making sure we never miss a peak with good money. And it's good because like this morning, we got the e-mail this morning that with $600 prices, it was better first to turn the power off at the office and run the diesel generator at the back. And people are doing that. They won't be told to do that. People are thinking about the -- every opportunity to make a dollar.

We will retain the development options we've got because we believe they're really good and there will be an opportunity. And we still think it's worth -- and for us to identify some more options. And therefore, we're going to progress the Waverly Wind Farm through resource consent, but we'll do it in a way that doesn't create an expectation we'll be able to build it anytime soon thereafter. But it's quite a unique wind farm because it's one that's probably a sort of 100-megawatt doable thing as opposed to some of the really big ones that are floating around. So we'll just get that into the package.

Irrigation is really starting to emerge as something that the team have worked enormously hard on. We're really fortunate to have people in our business that really get this use of water thing very, very well, from understanding what it means in an agricultural sense to what it means in terms of a water management and environmental sense. And I guess this morning, I was kind of interested to hear Russel Norman. I think the conclusion that Chris and I came to is that perhaps we may divert to go and do a bit of education about what irrigation would mean from an environmental perspective because it's not all bad news.

So we want to be the leading provider of stored water for irrigation. And why do we think that's worthwhile? Well, it's kind of interesting, the world we live in. Sort of 0.76% of the water on the globe, that's a pretty small amount, is freshwater. So we still have all that water, 100% water, 0.76% is freshwater. And only 0.0067% is actually available to mankind to use. So it's a really small amount.

In New Zealand, 400 cubic kilometers of rain falls every year, and only 60 cubic kilometers of it is available because most of it goes out to sea before we've even done anything with it or it goes elsewhere. And about 11 cubic kilometers has been allocated. So in the Rakaia where we're obviously doing the irrigation thing, there's about 1 cubic kilometer of supply which is in band, allowed to be used. And that has to meet 3/4 of a cubic kilometer of demand. So you'd sort of say, well, that ought to be okay. But the reality is supply and demand only meet 50% of the time because it's not always needed when it's there, and then when it is needed, it isn't there. So that's really why the solution is storage and infrastructure and trading. And that can increase the irrigated land in Canterbury to -- by 120,000 hectares. Now takes a while to get there, obviously.

So that really sets the sort of tone for why are we interested in that. Well, we've got Lake Coleridge. Lake Coleridge was available to be used as storage. The Water Conservation Order was the -- really the impediment to that. So we've been through the process of getting the variations for conservation order. Is that a big deal? Well, I think it's a big deal because it's the only time a conservation order has ever been varied. And ultimately, it was done with a bunch of concerned stakeholders who I think, by and large, have got really comfortable with the proposal that we've put up, which is great.

So what does that look like now? Well, we think there's a 20-year PV of $80 million to $120 million, and it starts really from, I guess, the next irrigation season providing we've signed up irrigators to take the water. And we have -- we're well progressed in that discussion, and we're hopeful that we will be able to make some announcements around that before too long. It'll allow us to extend our Highbank pumping. There's additional storage supply that we could provide, and we could invest it in additional storage. There are storages we could build in addition to Coleridge that would allow staging of water through the system. There's some conveyance structures that we could build and then they would facilitate further storages.

Now whether all this actually happens or not obviously depends on uptake. But our view is that certainly, the top line, the Coleridge storage release will get taken up. How fast is a bit unknown at the moment. But it'll get taken up because the water is actually really useful for the land use in the area. And it's -- an economic rationale makes enormous sense. So these things always work better when the economic rationale works and it makes enormous sense for the end user. So look, we've got a bit of work to do but I think it's an exciting progression.

There are some other prospects. In Canterbury, there's a scheme called the Mayfield Hinds scheme. There's a way for us to link into that and there's a potential generation on that scheme as well. There's the South Rangitata area. We can link into that through the Canterbury water management process, potentially 45,000 hectares there. And in Otago, there are some sort of -- and I think Christian said this morning, about 40,000 potential hectares of irrigation that could be associated with our existing assets. And of course, in Hawkes Bay, there are a lot of storage-based schemes like Ruataniwha. And whilst we are not necessarily going the exclusive person that will end up doing that, we're certainly engaged in the discussion process because we believe we've got some real to add around the storage end of it where -- that's where we think we really add something and in the sort of hydrological management and the smarts that get the best value for money. And ultimately, the best value for money comes if the end user take up occurs because they can run their businesses better.

So in irrigation, it's pretty exciting and it's part of our, I guess, expansion of that core hydro business. Of course, the other sort of window for us is our core IP in wind and how we're expanding that is in Australia. So I think last year, I said that 10 years' time, we'll own 600 megawatts of sustainable generation in Australia and we'll build another 600 megawatts for our development partners and continue to pay a management role. And I guess that's trying to deal with the issue that Marko raised this morning about how do we fund all of those things. We've got to have some alternative funding mechanisms. So how are we going with all of that.

Well, the renewable energy target, and I set this out last year, is still there. They went through a review of the renewable energy target prior to Christmas and it was really interesting that the scope of that review talked about creating investor certainty, which I think there's a regulator New Zealand that ought to check with their Australian counterparts about that sort of thing. So the scope was about checking that this was still the right target and making sure that in doing so, investor certainty was still there. They decided the target was still the right target, that it should be a gigawatt hour target and that they just meant that they would get to the overall end goal quicker.

The green part of the bars on the chart there are probably important things. They're the committed projects and above the ones that are already there and the little bit on top is Snowtown 2. So Snowtown 2 comes in, we got those committed projects. There's still a significant opportunity. And that opportunity is the one we are trying to grasp, just on Snowtown 2. And I thought I'd sort of remind everybody that Snowtown 2 is a big, sort of 270-megawatts, nearly 1,000 gigawatt hours, with great capacity factors, AUD 438 million but with some pretty good returns. And we're still very confident of those numbers.

The picture there just shows one of the -- we've got 2 types of foundation being there. It's just a bit of geeky engineering stuff we've got 2 types of foundations being built. Rock Anchor Foundation is where they actually have to drive holes into the ground and anchor steel rods, steel into the floor because of the nature of the floor and that's one of these being poured, so that's the foundation, just to prove we are doing something over there. And Gravity Foundations, which are, as they say, a big lump of concrete in the ground.

So the project's going pretty well. So far we've done 30 of the 90 foundations. So that's progressing well. All the roading that needs to be done on there is progressing to target. The transmission line, which needs to obviously be built before we commission, everything's on-site and 29 out of the 91 poles have been erected and we expect transmission line to be finished around mid-year. That's ahead of target. And the wind turbine towers that Nacelle manufacture is all underway and the first delivery is due in June. So we would be expecting to meet that sort of first target commissioning of around October with the way project's going at the moment. The key thing obviously is to connect the wind turbines to the substation to the transmission line. So but there's nothing at the moment on the critical path that would indicate we won't get there. So I think we're feeling positive about the project and I think, ultimately, you might say, "Well, you should be anyway." But I think it's worth reassuring that these things to know that they're on target and going to deliver on time.

And so what about the future? So we've stuck another -- last year, this only had 3, basically, 3 stacks. And the stuff we've got, Snowtown 1, the stuff that we were going to build, Snowtown 2 and the stuff that we have in the pipeline. Well, we've sort of expanded that out a little bit now. Pipeline's bigger and we've now got things going to the consenting process, which I call the development improvement process in Australia. And we've got one project that we are able to name now, Dundonnell in Victoria, 240 megawatts going through the consenting processing in Victoria. That project meets the obligations around circle 2k rule [ph] but we have some flora and fauna environmental stuff to do, to work through, but it's progressing. And then we've got about 800 megawatts of projects, which are currently going into the New South Wales DA process. So that'll give us just over 1,000 megawatts of project pipeline.

In addition, we've got about another 1,000 megawatts projects that we have options over land and we could progress. And probably one of those is in South Australia and we've sort of not really decided whether South Australia is ready for another project. We're just being a bit cautious about getting built out. But on the other hand, the wind conditions on this particular site are as good as Snowtown and if the right interconnectors get built, it could be a real star.

So just to round up, we think TrustPower is a bit distinctive. So we don't want -- as more occurs, we honestly want it just to be lumped together with the big guys. We're distinctive because we have real growth opportunities. We're distinctive because we have a real view of multiple product retailing and we will be pushing that really hard. We're distinctive because irrigation and water markets, we're in at the front, in an area which is going to, in my view, Canterbury, the area sets the tone for this whole thing in New Zealand. And in that we've built great relationships with stakeholders and we're in renewable generation assets in Australia, which must be the only growth energy sector that there is. And actually, yes, there's some sovereign cum regulatory risk around the renewable energy target that everybody you hear speak says that there is bipartisan support for that target, whether it's liberal coalition or a labor government in the future. So we're feeling very happy with that and I think the real good news is that we expect Snowtown to deliver on time. So I'll take questions.

Vince James Hawksworth
Chief Executive Officer of Trustpower

Matt?

Unknown Attendee

Could you just put some color around your comments about improved or improving [indiscernible] we should see over time and how material you think that could be? And how that sort of plays into you thinking about sort of the long-term cross [indiscernible]?

Vince James Hawksworth
Chief Executive Officer of Trustpower

Yes, I think there's a couple of interesting things happening in that space. Well firstly, I think Snowtown 2, we're going to be the first people in Australasia to use the Siemens direct drive machine. And one of the reasons that they're able, were able to provide us with such a sharp price is they were -- a, is they wanted to get in; and b, they were using that particular machine, which is much lighter because it's got no gearbox. And their chief technology guy was out before Christmas and we asked them the same question, where is this going? And he said, "Tell me a price you need me to make a machine at." So I said, well, can you do something that's sort of NZD 75. And he said, "Yes, that's doable." So how quickly it's doable, I mean, he didn't say. But he's headed off back to Denmark to go and build one for us. So I think there's a real issue there. The second thing is wind yield. So what we're seeing -- so on Snowtown 2, we've got 2 types of machines from a wind deal perspective. We've got some 102 meter blades and some 108 meter blades. And that means, that the bigger the blades, the more you harvest the wind. And so as blade lengths get bigger as well, you get more yield because they will yield at lower wind speeds when the wind drops. And interestingly enough, we were – Robert Farron and I were on a conference call the other week to some guys in Australia who have been doing some analysis on South Australia on gas. And what they decided, well, they were asking us about how Snowtown 1 reacted through the sort of price curve. And what they found is that wind farms are hanging on more at lower wind speeds at higher peak prices. So I think what's – what we're starting to see is technology really making a difference. Now, they will always be intermittent to some extent. I mean, I think that's inevitable. But those are the sorts of factors that are at play, yes.

Unknown Attendee

And when you look out [indiscernible] published sort of [indiscernible] in New Zealand they head up towards $100 based on sort of claim [indiscernible] quality of renewable sites. Do you feel that, that could be offset by [indiscernible]?

Vince James Hawksworth
Chief Executive Officer of Trustpower

Well, I think that's what the manufacturers are starting to indicate. Whether they can actually deliver, we'll only find out when we go to market with a project. I think the other thing that I think Paul Newfield spoke about this morning was the impact of China. China is just building so much new [indiscernible] and some of those Chinese companies are improving their technology very rapidly. So 3 or 4 years ago TrustPower probably wouldn't even have thought about engaging with a Chinese company to provide gear. I think by the time we come to do our next project, we'll have to seriously reconsider that. I mean there's a whole bankability issue around all this of course. But assuming that we can get over that hurdle, I think some of the Chinese wind turbines will be in the marketplace by then.

Unknown Attendee

Can you just give us some color on quality [indiscernible] in Australia?

Vince James Hawksworth
Chief Executive Officer of Trustpower

I suppose the benchmark is, is are they as good as Snowtown 2 ? And answer to that is we're probably not sure yet. I suspect not quite as good otherwise they would have been built already. But they are in the -- I guess, what do we want to know? We want to know that we're looking at sites that are within the target for starters and we'd like them to be in the top half of the target or buildable in the next 5 years or so. And at this stage, I think we would say that with some confidence around a couple of them, that they would get built in there. So probably about 500 megawatts of build from what we know already that would be within the sort of up to about 30,000 GWh as opposed to the 30,000 to 45,000 GWh. And the others, I think, we're still doing some monitoring on. But if you'd have asked that question about Snowtown 4 or 5 years ago and we were saying, it's going to be really difficult to get that away, and then it rapidly came on as being a good site, once the -- we could line up turbine price and connections and things like that. So these things do move but – yes, I mean, we wouldn't be looking at these sites if we didn't think they have the potential to be built. Yes, Wayne?

Unknown Attendee

Have you looked at solar hydro as an opportunities or a threat, given that potentially [indiscernible]?

Vince James Hawksworth
Chief Executive Officer of Trustpower

Yes. We're looking at solar. I don't know whether we're sort of looking at it as an opportunity or a threat just yet. But we have actually just installed some solar panels on our office. And part of that is not because we didn't believe they worked or anything like that, but we sort of wanted to understand the realities of how solar panels in the Bay of Plenty actually stack up against the pricing periods. So when does the sunshine, when do they produce, how do they produce against peak price opportunities and all of that sort of stuff. Because I think one of the tragedies about solar in Australia is the fact that they really just rolled them all out. And they installed them all pointing at the midday sun, which you'd say sort of make sense because the sun comes round, in the midday you'll get biggest production. They would have been far more effective in a market sense and in a peak offset sense if they'd have pointed them so that they were maximum output at 4:00 in the afternoon, when everybody's coming home from school and doing all the -- switching air-conditioners on. And actually by then, they're not working nearly as well because they were producing maximum output at midday when nobody needed it. So we're trying to understand some of those dynamics and how that might sort of fit into our world in the future. PV prices are still high unless you're -- I was at a presentation that Mike Underhill did for EECA the other morning, and as Mike said, it's great technology for survivalists and people who just want to be able to say that they put it up there but the price is still really -- lifetime prices are still really quite high. But we are -- look, it's an area of interest for us. It's renewable. It could work really well in some of the areas that we're in and there's all sorts of possibilities around it, including the fact that on some of our wind farm sites, we've got farmers who would much rather have our technology there and harvested income from that than chasing one sheep per hectare around South Australia.

Unknown Executive

Leave it here.

Vince James Hawksworth
Chief Executive Officer of Trustpower

Thank you.

Unknown Executive
Vince, thanks very much. It's a good half day and check on [indiscernible]

Question and Answer

Unknown Attendee

Two questions. The first question is, how much square meter expansion does that terminal cost, [indiscernible] on car parking, what -- of that $40,000 number, what kind of revenue do you get [indiscernible]?

Steve Sanderson

The first question, hopefully, I'll answer this, I don't quite have the square meters in my head. But it's a 30-meter extension, so if you look at the main terminal building, imagine 30 meters extension to the south, which will go past the current apron and then it's wider and it goes down, it's twice the size down the apron. Our first rough order of costs are about $44 million to build that. In terms of the car parking, again, rough order of costs, it's $44,000 for each car park, and I guess, if you do the math on that, it takes about $100 a week to service that. That will be a sort of return that we're looking at. Must be -- am I between coffee and afternoon tea, am I or...

Unknown Attendee

Steve, where about [indiscernible] the possibility of the runway extension?

Steve Sanderson

Yes, the runway extension, we have -- I've talked to the Chamber of Commerce and the Property Council about the runway extension. There's a ground swell in Wellington for the runway extension, and the obvious reason is, it gives us connectivity to Asia and the U.S. and beyond. And economically for Wellington and the region, it's got a huge benefit. We engage Bill and I think numbers are in the order of $50 million per annum is the net benefit to the region. And for the airport, if we model it on Christchurch, and that's -- I think that's a fair model, and I think Bill used those numbers, Christchurch have one daily long haul each week -- I mean sorry, 7 long hauls per week. That's the true number. And that's approximately worth in terms of revenues over $1 million a year for the airport and landing fees. And you look at a 300-meter extension, $300 million to build it. So it definitely does need public funding to build that, and that's the ground swell that's building in Wellington and greater regions I hope.

Unknown Attendee

You mentioned about your relationship with Jetstar, I mean, [indiscernible] can you touch on your relationship with Air New Zealand, just how that's working [indiscernible] collaboration [indiscernible]?

Steve Sanderson

Yes, I mean, Air New Zealand. Traditionally, airports and Air New Zealand have always had a hard relationship. There's been a lot of litigation between -- not just Wellington, but all airports throughout New Zealand. I have a good feeling about what -- the new CEO, have a good feeling about the culture he's driving, have had some good conversation with Chris Luxon. And I think it's a culture that he wants to change. We're -- just with -- not just with airports, but the customer relationships and stakeholder relationships and supplier relationships, is valued, and some of that we're trying to improve with them as well. And in Chris's words, he would rather be talking about expansions and developments with an airport than talking about litigation. So we're certainly a willing partner in that new relationship. Okay, I'll take the silence as the end. Thank you, everyone.

Marko Bogoievski
CEO & Director

Thanks, Mike for your presentation on Z. I know it's 3:45, so I'm going to let people go in 2 minutes. I'm going to leave you though with a couple of thoughts. I mean, at this stage, I'm reminded by one of my former bosses that said, Marko, you're such a low EQ person that you keep forgetting to ask, how do you feel, right? So I'm going to ask the room basically, how do you feel, and I'm going to share a few thoughts that are occurring to me about the sort of things that are on my mind when you're sitting through watching these sort of presentations.

It is actually quite hard to detach yourself, isn't it, when you're part of what's going on and part of a management team and organization that has this great pride. But I did try to sit right there and be as detached as possible, and say what would I be thinking? And I think these are a reasonably confident set of plans. I mean, some people have referred to the slightly more upbeat nature of the presentations today. I mean, that's not a rehearsed -- I don't think you can rehearse that stuff, right? You come across exactly how you feel and we've talked about the angry man that just got off the stage, that's how he looked last year and he couldn't hide it either, right?

So confidence is natural and it goes from that sort of vicious cycle of hitting targets, doing what you say you're going to do, making a new set of commitments. So that's not by any sort of accident. Then eve I would caution, this is my own makeup. We're always aware of what could happen next, so even though all of our major businesses are actually pumping about as hard as you could hope, it's pretty unusual to have all 4 going that fast, that hard at the same time, right? Even though they've got that confident set of plans.

The thing I really love, the thing I love the most is that each CEO in and in their own way through their management teams and relationships with the industry make others, i.e., competitors, people they interact with feel quite uncomfortable in a positive way. I mean, Mike's probably one of the best examples, right? He is genuinely showing leadership in every interaction in the industry. The sort of stuff he says in these presentations, I guarantee, no multinational branch managers would dream of getting away with, right? And it's sort of a real insight into the way -- the difference between a local independently owned business and one that's just an outpost of a much larger entity.

So here, we really are trying to rewrite the way the industry operates. And I've heard from many people that Wellington Airport has gone too far with the way it's approached its pricing consultation. But hopefully you get a flavor there about some of the context and the leading thinking that's going into the positions we're taking on really important matters like infrastructure investment. I mean even if you'd half the numbers of economic impact of Wellington Airport to the region you're still talking about a multibillion-dollar-type facility, right? Trust [indiscernible] who come across as more perhaps modest and recognizing that they're the smallest player in the market, things like transmission pricing methodologies, which is one of the biggest things that's going on at the moment, they're at the forefront of actually pushing the industry towards the right outcome and actually directly particularly putting it to the Electricity Authority that you've actually got it wrong this time around.

So here's a business that's actually demonstrating its leadership just through the power of its thinking. And I guarantee, all that stuff makes the rest of the industry uncomfortable and actually we'd like to think they're responding to some of the cues that will improve outcomes for customers, outcomes around quality and service, and I guess outcomes for New Zealand. So which is something that's always been dear to this organization.

The final thing I would ask is just for you to make an assessment of the people you have seen in front of you today. It's practically impossible, isn't it, to put a lot of people up in front of a day and not drag it out too much, but I think these are our best chief executives. I think they're coherent in the way they've put forward their thoughts. I think they've quite different personalities, and thank God for that, right? Because who'd want an organization full of the same people. And you can see by the fact that Mark Tume, he's a director, he's been here all day. I've mentioned David, the Chairman's been here. We had an ex-chairman who came in and kind of sat quietly in the corner for the whole day. Julie's joined us last night and today. I mean, that's the sort of place that we are. You have sort of support you feel every day, not just in Vista presentations.

And we didn't -- we extend invitations, but we don't tie people and force them to turn up. They turn up because I think they feel they're part of the family, which is also I guess why people -- hopefully, come to things like last night, we have at dinner and we try not to push the business too much in those sessions because it's -- you got to have a relationship first, right, before you can communicate, and that's what that's about. So we'll keep doing these things. I really do appreciate the fact that you've sat through and been so attentive all day. And I'm sure we'll hear a lot of feedback over the next few weeks. So thank you, and we'll see you same time next year. Thank you.