Question and Answer

Operator

Your first question comes from Mr. Wade Gardiner from UBS.

Wade Gardiner
UBS Investment Bank, Research Division

First of all, you talked about active on the buy side, replacing some of those gas contracts with medium-term contracts. Can you give us a bit of detail around the length of the book that you've got and, sort of, how much you've actually replaced there? Second question is, given your comments around the input methodology in the current regulation, how is that actually impacting on your current growth CapEx? Because for Electricity you spent $57 million in the current year, which was up on last year. It doesn't seem to be -- should you actually be pulling that back given the uncertainty? And the third question I have, if the fibre deal goes to telecom, you're saying that the current model doesn't allow for working with partners. So, what's plan B? Can you turn around quickly and take a deal to them whereby you will work with them? What's the process there?

Simon MacKenzie
Group Chief Executive Officer

Hi Wade, look, I'll try and capture all those queries. The point I was making with respect to gas contracts, if we look at the market dynamics at the moment, we're seeing customers contract typically two to three years out. We have a portfolio of products. As you'd expect, we have some longer-dated buy side contracts with a lot of those being matched to longer-dated customer contracts, and then, the two to three-year contracts that we have recently put in place, typically aligned with contracts that needed to either meet the sell side obligations that we have or provide more flexibility. So, essentially, we're talking about kind of a two to three-year window, that after that the ongoing positions are dependent on rolling over of existing contracts for primarily the commercial, industrial bases. With respect to your question, if I picked it up correctly, it was around the impact of regulation on capital growth expenditure. I think it's primarily there that we're seeing a lot of the growth expenditure coming through a number of big, large one off contracts. And so, those are backed off with contracts directly with the customers. And in addition to that, also meeting some of the demand that we did defer capital works on going back about 18 months going into the financial crisis and reflecting that we didn't expect to see volume growth on our network or demand growth move as much as it has actually transpired. So, there's a degree of ensuring that we invest in the appropriate time frame. With respect to your question around whether we should be backing that off given the regulatory uncertainty, that is something that we constantly monitor. We believe that we have an obligation to ensure that we're minimizing capital expenditure, given the regulatory environment, but also maintaining as a core security and reliability, and the growth is largely around maintaining our security and reliability levels. As you will see in our asset management plan, we do identify a band of capital expenditure that kind of bounced from a low CapEx outcome, which would link to a adverse regulatory outcome and a higher capital band that would link to a more positive regulatory environment, where there would be incentives to invest in improving network reliability to a level greater than it currently sits. Lastly, with your question on if telecom was successful in winning the LFC bid, the point I was making was that as it stands at the moment, the process we are in with Crown Fibre and under the Commerce Competition law, we can't have a discussion with other potential partners that are competing for the rollout of the fibre in our network area. What we have stated on a number of times is we are obviously more than happy to contemplate other alternate arrangements. But however, that would have to be facilitated at this point in time by Crown Fibre or the government. Obviously, we work collaboratively with all the other NZRFG members, but that is on the basis that we are putting an offers for our own regions and not competing within regions. So, that is the context. Should telecom be successful in the fibre process, we still see that there's value with our fibre network and also reflecting that we have long-term contracts for many of our customers and also provide services to the future upgrade path of our own electricity networks.

Operator

Your next question comes from Jason Lindsay from First NZ Capital.

Jason Lindsay
Jarden Limited, Research Division

Where do you see the sustainable level of EBITDA for the Wholesale Gas business, is the first question. Taking into account of course your guidance next year, but where do you see it settling down? And the second question was, if you strip out the one-off impact on Technology last year, it looks like EBITDA maybe increased around $7 million a year but that's split between telecom [indiscernible] and also the split of the growth CapEx of $54.4 million?

Simon MacKenzie
Group Chief Executive Officer

Hi Jason, I guess the sustainable level of EBITDA with regards to Gas Wholesale is, to be blunt, a moving feast. That has got a high dependency on market gas pricing and conditions volumes, recognizing that it comprises of, obviously, wholesale gas, plus LPG, plus processing. As I think we said in the presentation that we don't expect a decline at the same level as this year, we're in a much more sustainable kind of level. There will be a slight decline, but that is obviously got the dependency on the extent of competition in the market through recontracting customers. The second question you had was with regards to splitting of the Technology. We don't split that out. But, you're correct that we have seen good growth in the Telecommunications business, whilst also recognizing that a reasonably large chunk of the CapEx from a growth perspective in that segment is due to the installation of significant lift in volumes of smart meters being deployed. We're now hitting around about 10,000 smart meters a month.

Operator

Your next question comes from Patrick Smellie [ph] from Business Desk.

Analyst

Can you say what you spent so far on the fibre bid? And secondly, in saying that you're comfortable with the analysts' forecast range, what is that range?

Simon MacKenzie
Group Chief Executive Officer

Look, we're not going into how much we spent on the fibre bid. I think it's fair to say that the best context around this is that we look at this on the same basis as anything that we seek to pursue, that we will spend an appropriate amount of money recognizing, first and foremost, that it has to be an attractive commercial proposition that we have to continually deliver increasing and sustainable dividends to our shareholders. But importantly, to say that we also have a very tight cost control on how we run these projects and now adjust to how we would run an acquisition activity. So, it is something that we have invested in appropriately, and we, in the board, are comfortable with the level of expenditure and entire processes around that. With regards to the question on analysts' forecasts, that's roughly in the range on net profit after tax of between $180 million and $208 million. That is the range where parties have put that, having taken into account the Transpower deal that we've struck.

Operator

Your next question comes from a Andrew Harvey-Green from Forsyth Barr.

Andrew Rupert Pelham Harvey-Green
Forsyth Barr Group Ltd., Research Division

First of all, on the electricity side and reduced maintenance costs. How much of the reduced costs was, I guess, with the related business ongoing save? And the second question was just around interest cover ratios and, I guess, what's your sort of long-term interest cover ratio you've sort of indicated? You're happy with the increase from 2.3 to 2.5? Or maybe wanting to keep it above 2.5? Or where's the sort of minimum level you want to have that?

Simon MacKenzie
Group Chief Executive Officer

Andrew, it's Simon. Sorry, you just broke up a little bit, so hopefully I captured your question. My understanding was you asked about the maintenance in the Electricity, the reduction, the split between how much was attributable to weather and how much was attributable, I understand, possibly the impact of our new service arrangements. Approximately, as an estimate, recognizing that these things can move around because of weather-related impacts, that approximately 50% would be attributable to weather and the other 50% possibly a little bit more to the cost and performance measures put in place for the new service provider's contracts. I'll pass to Alex just to answer the question with respect to interest.

Alex Ball
Former Chief Financial officer

In terms of the level of ongoing interest cover, fair to say, I think, we're pretty comfortable where we sit currently going forward, both in terms of interest cover and, roughly, in terms of the gearing ratio of around 54%. So, we're comfortable at that level.

Operator

Your next question comes from Grant Swanepoel from Craigs [ph].

Grant Swanepoel
Deutsche Bank AG, Research Division

This is probably a question for Adam, if he's around. If the WACC remains where it is from the regulator and with your expectations of what the adjustments might be as they currently put out there by the regulator on your RAB and if you had put through inflation price increase through the regulator at year '12? What would you expect your Po adjustment to be? And that question is also in light of raising your dividend, are you confident that the regulatory environment, going forward, will not force you to cut a dividend on that front? And then, finally you won't mention the cost associated with your fibre venture, could you at least inform us if you've capitalized those costs for this year? Or whether it actually has been expensed?

Simon MacKenzie
Group Chief Executive Officer

With respect to Po adjustments, we're clearly not speculating on where that lies at the moment. I think there's a couple of really key things to put into the mix here, as I think I pointed out in the discussion around the fact that we've released our regulatory accounts. There's a big debate around the rateable asset base and -- regulatory asset base, I should say, and 10.34 versus 8.4 when taking out the CPI valuation. That said, clearly with the range at either 8.85 or 8.52, that with disclosures, people could solve what the Po maybe. There's a big dependency about how much of an uplift is if the commission's stuck with the 2004-plus adjustments, we certainly believe that, that's the incorrect basis for the commission to start from. They previously put out decisions that they would do a new ODV, so hence, there should be an appropriate start valuation for the new regulatory period to start from 2010. So, there's obviously a reasonable swing from that. And as we mentioned also, the need to get the WACC underlying parameter much more in line with reasonable expectations. So, the only other thing I would add, Grant, with respect to Po is that I believe that a number of people are kind of predicting that as a one-off. The commission has a few steps to go through if there is a Po at all. Firstly, they have to ascertain whether or not there is any desire to claw back from 2012 to 2010. And then, in addition, as to how that adjustment, if there was to be an adjustment should be made, i.e., whether as a one-off whether there isn't one or whether it's factored into some modified x factor for a CPI minus x going forward, which you'll also have to take into account volume growth on the network. The dividend position, clearly from a board perspective, we set the dividend at a level, which we believe is appropriate given the economic conditions whilst also recognizing the regulatory conditions. And furthermore, I think you'll see that it's reflective of a 51% payout of free cash flow, whereas policy guidelines is around 60%.

Michael Peter Stiassny
Former Chairman

Well, I think the key point is that with this type of stock, it would be very unwise if we had great movements up and down in the dividend. And you should take this as a sign of either improving or a very, very worst, a minimum dividend moving forward.

Simon MacKenzie
Group Chief Executive Officer

And I think also your last question was with respect to fibre costs. You're just reiterating there that they are [indiscernible] obviously appropriate. They're not by any sense excessive and they were not capitalized, they are expensed.

Operator

Your next question comes from Stephen Hudson for Macquarie Securities.

Stephen Hudson

With regards to the commissions seeming move on RAB for cost multipliers and found assets, can you give us some idea of what the potential uplift is there? I think in the past, you've indicated may be sort of 2% to 5%. And also, if the commission were to move on a new ODV handbook rewrite, are we just simply looking at the difference between CPI and PPI, and so, therefore something like, say, a 15% uplift there to take that into account?

Simon MacKenzie
Group Chief Executive Officer

Stephen, I guess the kind of two parts of it is obviously gas and then there's electricity. If we talking with respect to electricity in the first instance where you mentioned just updating the 2004. Obviously, there's not a lot of color, for want of a better word, on where the commission's thinking is exactly in this space. But our view would be that there are very identifiable inaccuracies in the 2004 ODV. They include not only optimization issues, which have taken assets out of the register, but also multipliers and costs that were reflective of that asset value at that time. And we are talking, in my view, probably more 5% to 10% range. That said, we do not believe that, that valuation basis was, in anyway shape or form, appropriate as the point to start for going forward, especially under the line of reasoning and argument that the commission is now trying to articulate in its draft decisions. So, a new ODV is clearly the appropriate methodology. And also note, that we believe that under the principles of regulatory economics, the valuation should be done under the term of a veil of ignorance, i.e., it should be done an appropriate basis to establish the appropriate valuation and then deal with, if that implied, for example, price increases, deal with that as a separate issue as opposed to doing a multiple kind of solve for an outcome. So, the issue is actually, from our perspective, around a new ODV. Clearly, there is a starting point that you mentioned about the incorrect ODV basis. We have a working group with the rest of the ENA who have done an extensive amount of work of looking at where updates and new ODVs would form and they are clearly in double-digit numbers. And I wouldn't want to give a range at this point in time, but it's certainly 15-plus percent as opposed to lower than that. That's certainly a historic experience. The second issue is that, with respect to gas, I guess an interesting indicator there would be when we were first controlled on the provisional authorization, we articulated to the commission that the ODV used was off a 1998 draft handbook that was completely inappropriate for even an assessment of control or otherwise. However, the commission proceeded to control on that valuation. They then set about and put in place an ODV and the rigorous process, which clearly revealed that, that old handbook was out of date, and the uplift in that was well over 50% from a valuation perspective. Hence, going back to the comment I made about regulatory practice and principle being to get the appropriate valuation and then determine how you utilize that going forward, recognizing impact on customers but also impact on business from an incentive to invest going forward.

Operator

[Operator Instructions] The next question comes from Edward White from Energy News.

Edward White
Lehman Brothers

I'm wondering what you see Electricity and Gas volumes doing heading in the next 12 months?

Simon MacKenzie
Group Chief Executive Officer

Yes, hi Edward. Look, I guess, we probably need a crystal ball a little bit on that one. The issue can be broken down into a few parts. I think what we have seen stabilize is the kind of commercial, industrial space. So, that's kind of reasonably stable for when you're talking about from a volume perspective. The biggest swings, obviously, occur with regards to weather and how that impacts on rain into hydrology into thermal power plant production. From an impact financially, most of the volume that's linked to thermal power plants is largely around the capacity charges as opposed to volume-based charges. So, there's a degree of insulation there and booking capacity. In the LPG market, we see that we will continue to grow. We've gained market share. We have a strong proposition, and we're investing more in technology in that space for some potential other acquisitions around reseller business. And so, we see that LPG market being able to grow and expand as well as the Liquigas model from a volume perspective. As we mentioned earlier, that will be moving to just a tonnage of handling tolling charges. So, what we've seen over the last year in gas distribution, in particular, has been about a 1.8% increase, that probably will stay around that level for the foreseeable future.

Edward White
Lehman Brothers

Just wondering, with regards to the growth projects, Stratford, Papakura and Edgecumbe, can you provide some detail as to what you think these will do to transmission of volumes and revenue?

Simon MacKenzie
Group Chief Executive Officer

Sorry, I didn't quite catch all that question. But those projects, we've got a number of projects in the gas space. One is, they're principally around -- the first one is the project where we're providing a connection to the contact storage facility, so that's really connection revenues related. And then the booking of the capacity on the system from contact. The Papakura is an upgrade to supply more compression and volume through the northern pipelines. And Edgecumbe is a pipeline shift to provide more capacity on the networks and storage. So, those are contract investments. In addition to that, obviously, we work with and continue to work with the likes of Genesis on potentials for the Rodney power station. We've been successful in getting the easements result for those assets as well as connections to the Kupe pipeline, so connection contract for that as well as a connection contract for Stratford. I would also say that one of the other issues that we've got to put over the top of this is that our Transmission Gas business is controlled from a regulatory perspective, where prices can only increase by CPI. So, that's the kind of overarching issue in that space. The stand-alone connection contracts are obviously bilaterals.

Operator

[Operator Instructions] There are no further questions at this time. I would now like to hand the conference back to Mr. Stiassny.

Michael Peter Stiassny
Former Chairman

Well, thanks everyone for your input. And I hope this has been useful, and we will take kindly the compliments that have been made about how this is a better presentation and more useful. So, thanks very much and good afternoon.

Simon MacKenzie
Group Chief Executive Officer
Thanks to everyone. Just ask if any questions, that could be channeled through Anna Hirst from the Investment Community and from media through Philippa White. So, thanks once again, Simon and Alex.