Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Matt Henry from Goldman Sachs.

Matthew Allan Henry
Goldman Sachs JBWere Pty Ltd, Research Division

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

Shane Sampson
Former Acting Chief Financial Officer

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

Matthew Allan Henry
Goldman Sachs JBWere Pty Ltd, Research Division

Okay. And second question is on Kapuni. Are you able to give us some sort of color around what the point of dispute is? And also are you also able to give us a sense of what the remaining entitlements are at legacy pricing beyond the 7 or so that's under dispute?

Simon MacKenzie
Group Chief Executive Officer

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

Matthew Allan Henry
Goldman Sachs JBWere Pty Ltd, Research Division

Okay. So it's additional?

Simon MacKenzie
Group Chief Executive Officer

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

Matthew Allan Henry
Goldman Sachs JBWere Pty Ltd, Research Division

Sure. And are you able to give us a sense about where you're tracking on the remaining entitlements from Kapuni? Or the remaining legacy price entitlements?

Simon MacKenzie
Group Chief Executive Officer

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

Matthew Allan Henry
Goldman Sachs JBWere Pty Ltd, Research Division

Okay, that's fine. Just 2 last questions, if I may. Firstly, on your guidance, what have you assumed around a p-nought position? And the second one was just on technology, are you able to give us some idea of what the earnings split between meters and fiber is? And also, I guess, comment on what you think the outlook for that business is? I also note that your earnings at the EBIT line are substantially below what they were 2 years ago and as a business, you continue to spend a decent amount of CapEx on?

Simon MacKenzie
Group Chief Executive Officer

Yes, Matt, in the first instance with regards to I think your question around p-nought, we're obviously assuming currently that from a conservative perspective, we're following the Commerce Commission's 8.5%, but with adjustments that we identify as their materially wrong positions. So that's, I guess, what we are not assuming in that as I'd mentioned, is that they allowed some adjustments to the asset values that came through in the latest draft decisions that we haven't included, so we're basically providing you asset valuations on that. So it's just slightly below that 8.5% P nought for electricity. Also note that from a timing perspective for next year's forecast, there'd be basically 2 months of that -- I'm sorry, 3 months of that pricing in next year as opposed to a full year. And we're obviously not assuming any p-nought claw back or anything should merits review be successful as that will not come into fruition until obviously the court case. With respect to the metering, I'll just add a bit of color on that one. I think the key point here is that our technology segment obviously comprises 3 parts. The first part being the legacy meters. Second part, being the new smart meters and the third part, being, obviously, the fiber. From a capital investment perspective, our investment in fiber is basically always backed with contracts that support that investment. And so, from that perspective, most of the capital going into the segment has been through the new smart meters. The legacy meters, obviously, there's a declining contribution from those as they get displaced and fundamentally had to be displaced because of compliance acquirements in 2015. And Shane can just give you a quick kind of heads-up on some of the other points that you noted.

Shane Sampson
Former Acting Chief Financial Officer

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

Operator

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

Grant Swanepoel
Deutsche Bank AG, Research Division

Just in terms of your merit review, what are you guys really looking for, in that it's an open-ended book in terms of what a top end WACC could be or what your asset base could come out. What is your best case scenario in terms of the current WACC is sitting at what, just around about 7.8%? You guys are looking like a 8.5% plus. On the asset base, you're looking for another 20% on top of that. Where would you be satisfied? Second question would be around, just a quick one on the E-Gas write-off, what was the quantum of that? And the final question is on the little thing you mentioned on New Zealand windfarm. Is this an asset that you want to keep holding on to now that they've completed the wind farm? Would you not be actively trying to get it off your books at some sort of premium to which you're writing it down to?

Simon MacKenzie
Group Chief Executive Officer

So just going through those, with regards to the merits appeal, what are we trying to achieve? I think, obviously, the best outcome is to increase WACC, to increase valuation, and I think those are the 2 primary outcomes. I think it'd be fair as an indicator to say that if you look at the Australian weighted average cost of capital, clearly, we should be in that type of range which sits currently about 1% above what's being proposed by the Commerce Commission. So we'd have to argue that that's clearly it's slightly north of that. I think in asset valuation, we've set this out in our merits of appeal process. In particular, kind of break it down into 2 parts, Grant, is that the commission had always proposed a new ODV back in 2008. Furthermore, they also -- the origins of ODV was the efficient new entrance test. So 2 things have gone on. One is that they are now trying to move away from efficient new entrant test; and secondly, trying to move away from having to do a new ODV. So that's the fundamental position on our merits appeal, is that there has to be a new ODV to start the regulatory period, which obviously is from 2010 to 2015. Now I think the practical reality of all this is, is that if we gained more on the asset valuation and less on the weighted average cost of capital or vice versa, it doesn't necessarily mean that we could end up in a situation where it may imply a price increase of, say, 10%, then it doesn't necessarily mean -- imply that were expecting to be able to get that price increase. What it would rather do is probably inform that we might get a slight increase above CPI over a transitionary period. And equally, we argue that, that should occur on the other side if there is a price reset. So our position is that the WACC is too low, and it should be clearly above that of the Australian context and our analysis shows that, and our asset valuation should be a new valuation based as of just pre-to-2010, which if you apply that is going to be a reasonably significant and uplift of asset base north of probably 15% to 20%. So the second question I think you had was with respect to E-gas write-off. I'll let Shane cover you, just give you the background on that.

Shane Sampson
Former Acting Chief Financial Officer

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

Grant Swanepoel
Deutsche Bank AG, Research Division

And, sorry, Shane. Did you write that off your normalized number or add it back to your normalized number for this year?

Shane Sampson
Former Acting Chief Financial Officer

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

Simon MacKenzie
Group Chief Executive Officer

Does that answer your question, Grant?

Grant Swanepoel
Deutsche Bank AG, Research Division

Yes, it does. And the final question was on the wind farms.

Simon MacKenzie
Group Chief Executive Officer

Wind farms. Yes. So with respect to wind farms, I guess, we're in the same position as articulated by the New Zealand windfarm board, which hopefully shouldn't come as a surprise, given Michael and I sit on that. But the point is that our focus has been on completing the project. We fully support the fact that it should be completed and stabilized. I think New Zealand windfarms has also identified that, post that, we'll review options of it going forward. We fully support the view of looking at the options to maximize the value going forward. Clearly, one of those could be a sale of the wind farm. And I think the other important part is that you will have noticed just recently, the agreement with Windflow Technology for the spares and services agreement to ensure stability going forward for the wind farm operation. So I think you can take from that, that we are fully supportive of reviewing those options going forward of which one may be divestment.

Operator

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

Wade Gardiner
UBS Investment Bank, Research Division

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

Simon MacKenzie
Group Chief Executive Officer

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

Wade Gardiner
UBS Investment Bank, Research Division

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

Simon MacKenzie
Group Chief Executive Officer

Sorry, the -- okay, the process costs?

Wade Gardiner
UBS Investment Bank, Research Division

The process costs.

Simon MacKenzie
Group Chief Executive Officer

Yes. We've previously identified that those are in the single-digit numbers, much lower than other parties have expended on it. And we're not revealing this to the nth degree but they are low single digit numbers. With respect to talks with Chorus, we've had no formal talks with Chorus on that matter. Obviously, from our perspective, we have a valuable fiber business and assets that they may be interested in. But we also have plenty of other options for the business from our own perspective, also recognizing the origins of this being from the legacy of investment for this smart networks and our energy businesses.

Wade Gardiner
UBS Investment Bank, Research Division

What about contract lengths on those...

Simon MacKenzie
Group Chief Executive Officer

Sorry, contract lengths.

Wade Gardiner
UBS Investment Bank, Research Division

That's alright.

Simon MacKenzie
Group Chief Executive Officer

Yes. Some of them vary. I think going back one step is that the build of our network has occurred in a number of different ways. So there's obviously the build that supports our electricity assets which is essentially a significant backbones around the network area. And so, largely, that's contracted through into our electricity business for, basically, those services. The other aspects pertain to the build on the North Shore, which was largely funded by the crown through the mush [ph] project, where we connect up 43 schools on the North Shore. And then our other contracts relate to the likes of Vodafone and also Transpower, where those contracts have duration basically longer than 10 years. And further to that, we do have obviously kind of like shorter-term customer contracts where some of them are in the basically a portfolio. So some are expiring in 1 year, some out to 3 to 4 years.

Operator

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

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

I fear most of the questions have already been asked and answered. Just I guess, one quick one, just to clarify your comments around the FY '12 guidance. Sort of looking at EBITDA, then I guess the consensus number, I think, was about $604 million. Is that the same number as what you were using in reference to those comments?

Simon MacKenzie
Group Chief Executive Officer

Yes, that's right. The consensus number is, from our information, is around $604 million EBITDA, Andrew.

Operator

Your next question is from Steven Hudson with Macquarie.

Stephen Hudson
Macquarie Research

I just had a couple of quick questions. The comment that you made about the modeling errors that you've identified, which amount to around about $17 million, just to clarify, does that imply that you're saying that the 8.5% P nought adjustment should be closer to sort of 4.5%?

Simon MacKenzie
Group Chief Executive Officer

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

Stephen Hudson
Macquarie Research

Right, okay. And just the second question on your current level of replacement CapEx. I think it's around about $119 million, versus depreciation of $170 million. I'm just interested in whether or not you can reconcile those 2 numbers realizing that obviously CapEx is lumpy but obviously it's quite important for forecasting your sustainable dividend.

Shane Sampson
Former Acting Chief Financial Officer

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

Stephen Hudson
Macquarie Research

And the main difference is in gas transportation?

Simon MacKenzie
Group Chief Executive Officer

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

Stephen Hudson
Macquarie Research

But smoothing all of those factors, you're comfortable using a replacement -- an ongoing replacement CapEx number of about $120 million.

Simon MacKenzie
Group Chief Executive Officer

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

Operator

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

Jason Lindsay
Jarden Limited, Research Division

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

Shane Sampson
Former Acting Chief Financial Officer

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

Jason Lindsay
Jarden Limited, Research Division

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

Simon MacKenzie
Group Chief Executive Officer

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

Operator

Your next question is from Gavin Evans with Energy News.

Gavin Evans

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

Simon MacKenzie
Group Chief Executive Officer

Yes, good question. Obviously, we'd like a decision as quickly as possible because I think that fundamentally would add to certainty with respect to some regulatory outcomes. So I think we're kind of saying that it might be the third quarter of 2012. I think it's also important to note that, Gavin, that even if there was a decision, it may kind of -- the decision may take a number of different paths. One of those paths may be that the Commission is required to go back and reset the whole inputs and go through a whole process. Or alternatively, there may be a decision that one of the inputs, say, for example weighted average cost of capital has been determined incorrectly, guidance provided on how it should be calculated and then it can then be used, for example, in price set paths. From an implementation perspective, what that essentially says to us, is that they could be a number of different outcomes, quite a lot of variables. And so realistically, we're not modeling or we're not forecasting any revenue claw back or impacts in our forecasts or guidance, because that will, at the earliest, probably wouldn't any claw back wouldn't be able to be seen and through until 2014, 2015 depending on timing.

Operator

There are no further questions at this time.

Simon MacKenzie
Group Chief Executive Officer
So I just like to thank you all for joining us. Obviously, if there's any further questions, you've got our contacts with respect to media and also Anna with regards to Investor Relations. Thank you once again for attending and your following of Vector. So I wish you all a good weekend and we look forward to speaking with you all again soon. Thanks.