

Question and Answer

Operator

[Operator Instructions] Your first question comes from Greg Main with First NZ Capital.

Gregory Main

Jarden Limited, Research Division

A couple of questions from me. I just want to clarify, in that guidance, when you say adjusted EBITDA, what are you adjusting for exactly? Like extra transmission costs of \$3 million in the period, is that -- do you adjust for that? Or do you leave it in there?

Dan Molloy

Former Chief Financial Officer

Greg, it's Dan. At the back of the market release on Page 14, there's a note that explains and defines adjusted EBITDA, and it's consistent with the approach we use at the full year. And effectively, the main adjustments to get to from sort of EBITDA to adjusted EBITDA are our associates' earnings and also the fair value change on financial instruments. So no, we're not stripping out anything like the transmission costs.

Gregory Main

Jarden Limited, Research Division

Okay. Secondly, on the ComCom service quality requirements and, obviously, the SAIDI levels, I mean, what is the process going through from here with regard to the ComCom line [ph]? How long does it take until you get a definitive answer out of them?

Simon MacKenzie

Group Chief Executive Officer

The process is typically that we obviously have to file our compliance statements. They will review those. They can then choose to investigate it. They can choose to wait and see, and see what happens the next year. So from a timeframe perspective, we don't have any clarity around what they would do. I guess, it's also what is occurring across the rest of the country. They can come in and ask for information about what has led to those SAIDI breaches, for lack of a better word, and explanations about what we've been, how we've mitigated those going forward or if, that's for example, largely from vegetation and are they outliers with regards to the normal kind of underlying actions that we can take such as investment in the network.

Gregory Main

Jarden Limited, Research Division

Okay. And I mean, you have kind of alluded to a possible financial, I guess, you could say, impact of [indiscernible] breach. What sort of magnitude are you talking about?

Dan Molloy

Former Chief Financial Officer

Look, Greg. I think the commission definitely have the ability to impose fines, but what we haven't seen them do that in a number of SAIDI breaches that have occurred over the last few years. And I think if we look at the graph on the slide pack, I guess what we're saying is there's no sort of -- there's no trend here of worsening performance. It's linked to wind or weather.

Gregory Main

Jarden Limited, Research Division

Okay. I guess [indiscernible] and I know that you're kind of reviewing your asset management plan, but you're also indicating that obviously given the cost of capital, you will review your Electricity maintenance

and CapEx plan. And if you get a few more extreme storms, then eventually there's going to be some pushback from the regulator. There's a risk within that. I mean, how do you kind of think about that when you are going through your asset management plans and how far you can sort of [indiscernible] investments?

Simon MacKenzie

Group Chief Executive Officer

Well, I mean, I think the reality is, as we identified there, we're having further reviews of vegetation. The biggest issue we have with vegetation is typically that they are on customers' own premises, so we're doing a lot of work about notifying customers about their obligations, whether it's individual customers or councils. We obviously are looking at when you say about capital, that's about new invested capital. We don't like the cash flow profile on new invested capital into the networks. And then to ensure that we're striking the right balance, we also use global consultants to basically look at our asset management practices to check that they're in line, and all those results are basically showing that we are leading in the performance from a cost and reliability perspective. So there's never any one simple answer, but I think if you break it down into actions that are third-party or external driven, what else can we do to ready ourselves for those situations, whether it's storm events. Then we go into our normal maintenance practices, continue looking at ways that we can refine those from a cost perspective. Some of those costs, we were seeing significant increases had actually come through things like council-imposed requirements around traffic management. We're working with the council about how we can streamline some of those costs, access corridors. Recently, we were granted permission to be able to drive down the motorway lanes, the bus lanes to be able to get to things quicker is another case in point. Then from new capital, saying what are the alternative technology solutions to change the model from just putting the same assets in the ground particularly when we look into the future.

Gregory Main

Jarden Limited, Research Division

Okay. Then just one last question. Just on the rolling incentive scheme, obviously, Comcom also looking in. I mean, how do you kind of think about that in the context of your business? Do you envision it having much impact?

Simon MacKenzie

Group Chief Executive Officer

Well, it kind of works on 2 parts. I mean, firstly, obviously, if you spend above the amount, there's no incentive. If you spend below the allocations, then you can derive a benefit. But also because of the way in which the commission in its forecast models has anticipated a certain level of capital expenditure, if you spend less than that, then there is also a layer of clawback that comes at the end of the 6-year rolling period. So yes, we take it into account. But obviously, from our perspective, their focus is much more around, is there a trade-off here, which our objective is to deliver an increase in dividend sustainable to our shareholders and is the incentive enough to basically overwrite debt against other capital options. I think it would also fair to say that it's quite hard that incentive scheme when, for example, the starting point is the commission has already reduced the capital requirements that we've identified and operating requirements by quite an amount.

Operator

Your next question comes from Wade Gardiner with UBS.

Wade Gardiner

UBS Investment Bank, Research Division

Could you just leverage on the solar plan and particularly how it's compared to the plan that you head out for before? I mean, sort of the price that the customers pays, what CapEx is involved? Is it battery technology like you had before?

Simon MacKenzie

Group Chief Executive Officer

The solution we have doesn't have the battery solution. That battery solution was very much part of our research of looking at the impact of batteries. The solution is a customer-driven proposition, which essentially see if they can pay upfront for the full installation or they can pay an upfront contribution and then an annual amount. I guess, the issue is that it's also designed and architected such that it's modular. I think the difference with our solution is it's very transparent about the sizing of it. So we're very much look at what is the size the customer optimally needs as opposed to oversizing for the installation for customers. But having said that, it's also modular in the sense that we can add more panels. The technology can also facilitate the connection into it of batteries as they will inevitably become extremely viable into the network. The level of capital expenditure is reasonably low, but it's fundamentally dependent on customer uptake and it would be fair to say that we continue to see strong demand for solar. We have a predominant feedback that it's not about the price. There's a lot of other attributes that customers are looking for with respect to solar.

Wade Gardiner

UBS Investment Bank, Research Division

Can you give us an idea of what the cost to the customer tends to be? I mean, I know it's modular but on just a standard size. What that size would be in terms of output and what the customers' paying?

Dan Molloy

Former Chief Financial Officer

Wade, it's Dan. That's all on our website, I think, the pricing and the system sizes.

Simon MacKenzie

Group Chief Executive Officer

All the price and the sizes, the sizing of the things, the different pricing plans are all on our website.

Operator

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

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

A couple of questions for me. Just first of all, can you just give us a bit of expanded update on initial opportunities in Australia and where that [indiscernible] and can you explain where they're going?

Dan Molloy

Former Chief Financial Officer

Yes, thanks, Andrew. I guess, what we're seeing with metering in Australia is the regulatory environment seems to be evolving in such a way that excluding Victoria, we're going to end up with a sort of situation similar to what's happened in New Zealand. So we've been doing a lot of...

Simon MacKenzie

Group Chief Executive Officer

Sorry, just retail lead as opposed to regulated.

Dan Molloy

Former Chief Financial Officer

We've been doing a lot of submissions and the couple of blocking items seem to have been removed. So we've seen unbundling or we're about to see unbundling of the meter prices. And the other issue of displacement or exit fees that the network owners of the legacy meters have been lobbying for seems to have been resolved. And so I guess, now that the key issue for us is to pursue certification, which effectively involves standing up our metering business before you even got any customers. We're well down the track on that. And we're in discussions with the big retailers.

Simon MacKenzie

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Group Chief Executive Officer

And we maintain strong relationships with equipment suppliers and telecommunications operators.

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

And just a sort of rough idea on timing of when we might see the first sort of deals announced from the Australian retailers in this spread?

Dan Molloy

Former Chief Financial Officer

Well, I guess, if you look at AGL, they seem to be going down a sort of a DIY-type of solution. I think the rest of the market is, as you can make a call on this strategy. Look, it's hard to know how quickly it's going to evolve, but you'd think that given in the next 12 months there would be some clarity on what the intentions are.

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

And the next question I just have was around -- and it's more of an update than anything else. But just a matter of shutdown and [indiscernible] closing and the impact it would have on your, I guess, transport revenues. And your intention there, what would you do to split those costs [indiscernible] or do you have other plans in place to recoup those revenue losses at tax time?

Dan Molloy

Former Chief Financial Officer

Andrew, in terms of the -- we are, you can see in our upstates [ph] we've seen declining volumes on the transmission part. We're regulated with a revenue cap, so effectively, they don't have a financial impact. Look, I think, if all the thermal generation was turned off, you'd see prices increase by I think 15%. But we're definitely not seeing that happening. And I guess the other thing we're seeing is increased demand from the industrial and commercial market and some new business and new connections that are wanting to connect into that pipeline. So we think that it's got quite a strong future as an essential part of the infrastructure.

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

Okay. And the final question I have. Apologies if that is somewhere in the pack. I haven't had a chance to sort of go through it in detail yet, but what's the customer contribution numbers for Electricity and Gas?

Dan Molloy

Former Chief Financial Officer

That's in response to a previous question, it's in the pack. It's at the back of the market release on the table, so it's on Page 12.

Operator

Your next question comes from Diana Robin [ph] with [indiscernible].

Unknown Analyst

I actually wanted to ask about the revenue at [indiscernible] However that's already been talked about. But I guess, just to ask you about, do you have any idea on the size of the [indiscernible] in Australia and then what potentially you can get out of that market?

Simon MacKenzie

Group Chief Executive Officer

Well, obviously, from our perspective there's the Eastern seaboard [indiscernible] so the market there, so obviously significantly larger than New Zealand. So we're obviously looking at well north of 1.5 million meters as just the kind of reality that we'd be focusing on.

Unknown Analyst

And you're talking, it's not [indiscernible] or just electricity?

Simon MacKenzie

Group Chief Executive Officer

Principally at the moment, we're just talking about electricity. But that doesn't mean that there couldn't also be opportunities in gas. But principally, the discussions and all the debate over in Australia has been about electricity meters, with kind of different environments between Queensland and New South Wales.

Operator

Your next question comes from Felicity Wolfe with Energy News.

Felicity Wolfe

My first question is, just coming back to the solar [indiscernible]. Just wondering how much investment you're putting out in solar [indiscernible] will help you also delay future needs to update [indiscernible] the growth that will come down in Auckland and Queensland will happen in the region.

Simon MacKenzie

Group Chief Executive Officer

Yes, look, I think the reality with it is because it's still very much customer driven, we're not seeing -- we're seeing certainly some clusters in some demographics across Auckland of people putting in solar. The purpose of us looking at solar because battery was very much more in line, Felicity, to that point around how can battery storage significantly benefit us from a network investment perspective. We're currently working on a large scale package with regards to batteries and analysis around that for a key part of Auckland, and we'll continue to work on that. It's early stages, but the fact is from a network perspective, it makes a lot of sense to have battery storage particularly to mitigate the risk of investment in kind of some cases like cables that are only required for very short durations of the day. We see solar as much more of the customer driven solution but to make it much more economical for customers, adding batteries means that they can utilize the energy when it suits them rather than being subject to buyback rates in the market when they're not at home, for example.

Felicity Wolfe

Yes. Just on the buyback side as well. What response been to your [indiscernible] up to '16?

Simon MacKenzie

Group Chief Executive Officer

I mean, it's been positive. I think, it really just reflects that there's a lot of demand out there for customers for solar. They have been positive. It's just a 1-year kind of offer to top up, and it just really just in response to feedback from customers about feeling that they wanted to be recognized for the amount that they see, the value as when compared to the retail price.

Felicity Wolfe

Yes, yes. Okay, and also just on the investigation into the Penrose assets. Do you have any kind of timeframe on when that might be completed and when you might kind of report it out?

Simon MacKenzie

Group Chief Executive Officer

Yes, in the second quarter. And that obviously is we have to work in conjunction with the Electricity Authority to provide all that information as the Ministers request the Electricity Authority to complete the

report for him. There's a lot of, for lack of a better word, forensic analysis into what may have caused the fire and that's still being worked through in. And we have engaged experts out of the U.K. to take all that analysis. They're still working through the analysis of the assets that were impacted. But other than that, the timeframe would be second quarter, as what we're working towards.

Felicity Wolfe

Yes. Just briefly on the smart meter business development team that's over in Australia. So just wondering given that there's been some movement around the regulatory environment, if it affects the new team or just the [indiscernible], how long [indiscernible] what are the sort of sizes?

Simon MacKenzie

Group Chief Executive Officer

Well, we've had dedicated resource over there for approximately 18 months now. We've grown that because of also needing to become certified to be a major operator over there. And we have supplemented it with contract resource when required with [indiscernible] from the regulatory or interface with policymakers' perspective.

Felicity Wolfe

Okay. And just around the continued proceedings and the revaluations. Do have you any sort of feasibility on timeframe for that?

Dan Molloy

Former Chief Financial Officer

Firstly, around -- I guess, around the arbitration, that's kicking off towards the end of April. Look we don't know how long that will take but it's got to be several months. And we don't know how long it will be before a decision emerges. Around the redetermination, we're disputing the validity of the notice at the moment. We're not happy that all the information we require to participate in that process has been provided. So until such time as it is provided, the clock is not ticking.

Felicity Wolfe

So just one last question. This is just around the transform model that Vector commissioned last year. I'm just wondering if it's being put to use. Is it being applied and a decision is being made from that here?

Simon MacKenzie

Group Chief Executive Officer

I think, well obviously, that it was part of the industry form as well. I think it would be fair to say that it's one part of the mix into our decision-making, probably the key components into the -- one of the things I don't think the change will model to be blunt, takes into account enough of the customers' preferences and choice. We have to be much more dynamic nowadays with the fact that technology changes so quickly. The cost structure of that technology changes so quickly. We've seen significant reductions in the cost of things such as batteries and solar panels. So it is but one part of the model that we look at, but I think it would be fair to say that we're looking at other models and other solutions that are probably a lot more holistic than that, that take into account customer preference, demographics, technology, change and where our future are going from a demand perspective.

Operator

Your next question comes from John Kidd with Woodward.

John Kidd

Just a question again on the Gas business. Pretty good results in the Wholesale business on the half. You mentioned that you've rolled over and renewed a couple of large contracts with customers. Just wondering if you can give a little bit of flavor there as to your outlook for the [indiscernible] business regarding things like volumes and margin you're probably seeing there.

Dan Molloy*Former Chief Financial Officer*

John, it's Dan. Thanks for the question. Look, it's not really one sort of we're quick to answer because I guess, there's so much going on in that business. I mean, what we're doing now is good demand for the [indiscernible] and bottle swap new products, and we're very -- we're investing in a new bottling facility out in South Auckland to make that. Liquigas is continuing to see a lot of volume. It's driven by the increase [ph] In domestic consumption and obviously exports. But there are so many variables going on that we don't know how long that sort of surplus is going to be sustained. So it's a difficult question to answer.

John Kidd

Just in relation to the contracts you had rolled over with those large customers you were talking of earning [indiscernible] any sort of [indiscernible] you could give us. [indiscernible] market circumstances the results in the first half. [indiscernible] that you might be seeing there?

Dan Molloy*Former Chief Financial Officer*

I mean, think what we have said is a fair amount of competition out there. And I think you probably -- we're [indiscernible] . But other than that, there's not a lot we can really say. We're going to continue to fight hard.

Operator

As there are no further questions at this time, I would now hand back to Mr. MacKenzie for closing remarks.

Simon MacKenzie*Group Chief Executive Officer*

Thank you. Thanks very much, everyone, for joining us today. I'd just like to reiterate our objective as a business is to deliver sustainable growth and dividends. We remain committed to that. We continue to search for opportunities in the nonregulated space to continue the diversification of our business. Obviously, it's an adjacencies with regards to technology and energy and related fields, and it is a challenge to basically find this opportunities so we are also obviously focusing on Australia and continuing to identify customer demand in new technologies that will become relevant to both New Zealand and potentially through the refuel [ph] . So thank you very much again for joining us today.