

# Question and Answer

## Operator

[Operator Instructions] Our first question comes from Matt Henry with Goldman Sachs.

### **Matthew Allan Henry**

*Goldman Sachs JBWere Pty Ltd, Research Division*

Well, I had 3 quick questions, if I may. Just firstly, wondering if you could elaborate on that statement you continue to see that you're enhancing acquisitions. And I guess, just interested in sort of defining the scope of the type of acquisitions you would look at and I guess the quantum as well. The second question was just around the wholesale gas. I just find it what your full year guidance implied for the second half of that business, I guess, [indiscernible]. It would suggest you require a significant pullback in the second half for that business earnings and it really -- just interested in your certain comments around excited about solar. I just wondered if you can provide any additional color on sort of where you are on those sort of initiatives and time frames associated with those.

### **Simon MacKenzie**

*Group Chief Executive Officer*

Okay. With respect to, obviously, looking at value-enhancing acquisitions, activity in that space, clearly, as we've undertaken with Contact, we plan on looking at metering opportunities, not only in electricity, but also gas and potentially into other sectors. And that may also extend the upside of New Zealand if the opportunity arose. With respect to other infrastructure, it'd be fair to say that obviously, if there is other assets that fit with their core business, such as electricity networks or gas networks, we would obviously explore those. But the reality is in New Zealand at the moment, it's not very likely. With regards to other acquisitions, we also see the opportunity in other technology that supplements our technology businesses, whether that's metering or gas-related services. I'll let Shane just talk to the gas question you had, Matt.

### **Shane Sampson**

*Former Acting Chief Financial Officer*

Matt, as I'm sure you understand, the key driver in here is really around when that legacy Kapuni gas comes to an end. And as I sort of signal, we're still working through this. So we're certainly not seeing a big drop in the second half. But as we've indicated in prior announcements, that leads to gas will come to an end eventually, but I wouldn't say a huge difference in the second half.

### **Simon MacKenzie**

*Group Chief Executive Officer*

And lastly, I think your question was with respect to solar. I think the most important point there is we see distribution networks, for want of a better word, the essential kind of asset in the infrastructure space that facilitates, obviously, customers' choice. And when you look at that, it's kind of more the embedded choice because energy still needs to move around within cities and between customers. Our solution, I think we have to move away from the kind of paradigm of a solar panel on the roof. It is much more orientated around making the solar solution a 24 by 7 option as opposed to a sunshine hours option because it's heavily integrated with Vector storage and also control technology, which is right at the forefront of managing inputs into the distribution network, whether they come from solar solutions, electric vehicles or anything else. So the solar development has kind of 2 key parts to it. One, it is a choice for customers, and we started through what we classify as a very soft launch with the new technology. And the symbol hit 350 inquiries already, and we've -- as we mentioned, we've already installed now 2 installations and we continue to actually qualify other parties that are interested. The early adopters, I would say, is the reality. The other side of the solution clearly links with the ability to offset distribution network investment for an unregulated space with respect to a customer choice. And the business model or the way in which we have put the offering out into the market is a small upfront fee with a monthly payment, and the assets remain owned by Vector.

**Operator**

The next question comes from Grant Swanepoel with Deutsche Bank.

**Grant Swanepoel**

*Deutsche Bank AG, Research Division*

Yes, quick question. I just want to follow on from Matt a little bit. At your AGM, your guidance is changed from then and at that time, we were well aware of the 10% cut in prices for the electricity business coming up in April. But since then, you guys have won the Kapuni Gas determination, redetermination and while that's up for challenge, that should have added about \$8 million to \$16 million to your bottom line, and you're keeping unchanged. So my question goes to what line item do you now think is going to be worse than what you're looking for at the AGM? Also, the meter business with Contact, what have you factored that in from, Contact expecting to end from the end of the first quarter of this calendar year. Have you got a quarter of the extra boost from the meter business in your forecast as well? And finally, you guys sound a bit more upbeat on the Merits Review and which you have in the past looking forward to the outcome of Merits Review. Is that unchanged expectation, or is there something in the Merits Review itself that you've seen a development that's going in the right direction?

**Simon MacKenzie**

*Group Chief Executive Officer*

Grant, firstly, with respect to remaining guidance, at the level, I think we're probably just signaling that as everyone observes in Auckland that the weather has been exceptionally warm for the last kind of 3 months, still looking to continue. And so that does have a negative impact on the electricity business and gas business from throughput perspective, particularly with regards to volume and in spite, I would say, largely offsets some of the benefit with respect to the legacy gas. It also relates to how quickly we want to take the legacy gas with respect to other gas in their portfolio. I think your second question was with regards to the metering business acquisition of Contact. The reality is unfortunately, it looks like the decision has been delayed by the Commerce Commission again with respect to the acquisition. I understand that's kind of being pushed out another 4 to 5 weeks. So we haven't taken that into account in this -- in the forecast. It's basically, therefore, may not actually complete until around about mid-April. And obviously, that's extremely frustrating given it's such a long delay in this acquisition. And equally, it's frustrating in the sense that we are looking to, obviously, grow the business. We see no barriers to entry for other parties that want to put a gas meter on the wall. And we understand most of the retailers or all of the retailers are very supportive of the acquisition where it basically leverages the scale and scope that we have to the benefit of themselves and customers. So it's just a frustration of waiting for a decision. I think your last question was with regards to anything that we've seen in the merits appeal process. Is that correct, Grant?

**Grant Swanepoel**

*Deutsche Bank AG, Research Division*

That's right, Simon.

**Simon MacKenzie**

*Group Chief Executive Officer*

Yes, I think obviously, we can never speculate on what the court's decision would be. But our view would be that there were some very positive, I guess, outcomes from our perspective, or the court went in a positive way from our view. I think the merits appeal panel were very engaged with respect to the arguments that we had and in particular, arguments with respect to the asset valuation, particularly in electricity -- oh sorry, and in gas, obviously recognizing the fundamental differences there. And then also, some of the detail componentry with respect to the weighted average cost of capital around issues such as 5 versus 10-year range and better values with respect to the international comparatives. So we felt that there was a very strong engagement and certainly, we didn't take anything pessimistic out of that. But obviously, there's a lot of complexity in where they arrive at a decision.

**Operator**

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

**Andrew Rupert Pelham Harvey-Green**

*Forsyth Barr Group Ltd., Research Division*

Some of the questions around the legacy gas have been sort of answered. I guess one question with regards just around the some of the gas decision coming out from the Commerce Commission next week or the final decision on that. Do you have any particular views on where they might be going relative to the draft decision that came up?

**Simon MacKenzie**

*Group Chief Executive Officer*

I could say that nothing surprises us. But I would say that we wouldn't anticipate it changed much given how things typically roll out. But we -- I would make the point, Andrew, that our kind of -- one of our big issues apart from the key inputs is the fact that the significant cuts that would put to our future forecast of CapEx and OpEx expenditure, we can't reconcile with stated objectives by the government around the meter investment infrastructure. So we do think that, that needs a really close look at it.

**Andrew Rupert Pelham Harvey-Green**

*Forsyth Barr Group Ltd., Research Division*

Okay. And secondly, I guess, again around the Commerce Commission. Any particular reasons why you think the Commerce Commission may have delayed further the gas metering decision? Is there anything in this or do you think they're just taking longer or...

**Simon MacKenzie**

*Group Chief Executive Officer*

No. I would only speak, I think they're basically working through the process and wanting to satisfy themselves around the market kind of analysis.

**Operator**

Our next question comes from Greg Main with First NZ Capital.

**Gregory Main**

*Jarden Limited, Research Division*

Just a couple of quick questions, just on the Kapuni arbitration. Can you just give some sort of feeling around time frame on when -- or how that process is going to be run?

**Simon MacKenzie**

*Group Chief Executive Officer*

So the Kapuni arbitration, what we call the first phase of that is actually completed as we've identified. However, the KMCs, or Kapuni Mining Companies, have basically appealed against the decision. And so that has to be basically determined from a time frame with the courts seat. There's no seat lately [ph] as I understand. They've only just recently appealed.

**Gregory Main**

*Jarden Limited, Research Division*

Okay. And then just secondly, this one is for Shane. On your debt at the moment, is there going to be any change in kind of how you structure there with fixed versus floating or anything? And where are you sitting with regards to that fixed versus floating at the moment?

**Shane Sampson**

*Former Acting Chief Financial Officer*

We're reasonably consistent, Greg, with where we've been for the last few years, say, in terms of the next year. We kind of set it about the 30% floating. No dramatic changes in that. I guess it's a matter of looking

at years, subject to the Merits Review process. We may look at how we structure our particularly interest rate flexing to align with regulatory period and that kind of thing. But in terms of to date, there's no major changes in that structure of that portfolio.

**Operator**

The next question comes from Stephen Hudson with Macquarie Group.

**Stephen Hudson**

*Macquarie Research*

Just a couple of quick questions. Firstly, Shane, I just wondered if you could give us the customer contribution numbers for gas and electricity for this half and the outlook for the second half. Can seem to find it in the presentation, and apologies if I've missed those. And then secondly, just a question maybe for Simon. I understand the Commerce Commission are working on implementing or at least incorporating the IRIS efficiency-incentive mechanism that's available in the customized price path that's been to the support price path the second time around. I just wondered if you view that as being potentially significant for Vector going forward?

**Simon MacKenzie**

*Group Chief Executive Officer*

Shane's just dragging out the...

**Shane Sampson**

*Former Acting Chief Financial Officer*

All right. So that would be Slide 14, Stephen. In terms of capital contributions in electricity, the capital contributions in the half were \$11.1 million, which is up \$1.3 million on the previous year. And on gas transportation for the half, say, were \$1.5 million, which is up from \$1.1 million the year before. So a good percentage growth, but not dramatic in the overall results.

**Stephen Hudson**

*Macquarie Research*

And you'd expect for the similar levels in the second half?

**Shane Sampson**

*Former Acting Chief Financial Officer*

We're seeing really high levels of inquiry from developers and it's definitely less than the level of acceptance than say we would certainly assume that they would continue.

**Operator**

[Operator Instructions]

**Stephen Hudson**

*Macquarie Research*

It was just around the IRIS mechanism. As I understand it, it's not available to you in the support price path, but it is in the CPP. And I just wondered if -- that sounded relatively materialistic Commerce Commission planning on building it in the next regulatory period.

**Simon MacKenzie**

*Group Chief Executive Officer*

Yes, I think with regards to the customized price path, I think, for instance, we have to say is that it's not something that we see as a beneficial kind of prices to go down, certainly not CPP. I mean, the regulatory regime is meant to deliver results through the DPP process that are efficient and lower cost, and CPP I think would be unbelievably expensive and wouldn't necessary end up in good outcomes. With regards to efficiency mechanisms and so forth, I think from our perspective, the right design of them is obviously the

key and in particular, what I would expect to see is how organizations such as ourselves benefit from scale and scope and how that actually translates into sharing of those gains with customers. But equally, we are going to have been made through providing customers with choice. I think there still remains a question around how -- what would actually be counted in any design is an efficiency measure or otherwise.

**Stephen Hudson**

*Macquarie Research*

So the upshot there that you are expecting the Commerce Commission to allow you to keep more efficiency gains in the next regulatory period, or you just don't know?

**Simon MacKenzie**

*Group Chief Executive Officer*

Well, yes, we would expect that to be the case and that should be consistent with what's required under the government policy statements. But equally, I think it's actually to align with what we're seeing in other jurisdictions, such as the RER regime in the U.K.

**Operator**

At this time, we are showing no further questions.

**Simon MacKenzie**

*Group Chief Executive Officer*

[indiscernible] questions were in the teleconference and webcast. So thanks very much for joining us today. If you have any questions, we may ask media to contact Sandy Hodge and investors to contact Daniel Kieser. Thanks.

**Shane Sampson**

*Former Acting Chief Financial Officer*

Thank you.