

Question and Answer

Operator

[Operator Instructions] The first question comes from Grant Swanepoel with Craigs Investment Partners.

Grant Swanepoel

Craigs Investment Partners Limited, Research Division

I just want to start with your guidance. Where the number of consensus sits at the moment, 573 million at the EBITDA line which means are you really looking for around about 13% to 14% [ph] down EBITDA level in the second half? The second question Kapuni legacy gas, the 7.3 termination, have you used that up already or is that still available to use in wholesale gas turbine [ph]? Can you give some sort of comment on the technology segment on how the Contact purchase has impacted those earnings, and how much is organic growth normalized -- I believe [ph] organic growth?

Dan Molloy

Former Chief Financial Officer

Grant, thanks for the questions. I didn't quite catch the figure you said in relation to consensus but basically, at our full year announcement, we announced then that we were happy with consensus estimates, which at the time were around \$575 million. We're still comfortable at that level. Although in the last few weeks, I think consensus estimates, average estimate, seem to have come down a fraction since then. In terms of Kapuni Gas entitlements, I can confirm that we have used those all up.

Michael Peter Stiassny

Former Chairman

That's the 7.3 petajoules.

Dan Molloy

Former Chief Financial Officer

Yes, and in terms of the Contact -- the impact of the Contact purchase, it had a \$7 million -- roughly \$7 million impact on revenue over the period.

Operator

The next question comes from Matthew Henry with Goldman Sachs.

Matthew Allan Henry

Goldman Sachs Group Inc., Research Division

[Audio Gap]

you've got available to look at acquisition opportunities? And just lastly, you got into high hurdle on materially better factor in the merits review. Are you [indiscernible] into whether that is sort of a standard hurdle internationally or the hurdles are different in other jurisdictions?

Dan Molloy

Former Chief Financial Officer

Matt, thanks for those questions. In terms of capital contributions for electricity this year, they were \$15.9 million. So that was about \$4.8 million ahead of last year. And that's been driven by residential activity and also some relocations, particularly in relation to the Waterview project. Gas capital contributions were \$2.5 million, so they were up \$1 million on the prior year. And again, that was due to high subdivision and due to relocation around the Wakkana Expressway. And in terms of favorable pricing mix, that comment relates to a restructure of our tariffs that we implemented on 1 April and effectively, the actual numbers of people who have taken up those tariffs would have been slightly different from what we'd assumed.

Simon MacKenzie

Group Chief Executive Officer

But it is important to note that it still sits within the regulatory revenue requirements. So that's just how they played out with weather and other factors.

Matthew Allan Henry

Goldman Sachs Group Inc., Research Division

[indiscernible] wondering where the job structure

[Audio Gap]

Dan Molloy

Former Chief Financial Officer

Oh, sorry.

[Audio Gap]

Simon MacKenzie

Group Chief Executive Officer

and we continue to adjust that principally through from April this year an adjustment around net, the amount of how we're passing through our transmission charges and how we decouple that from our distribution charges so then we get the right proportion of fixed versus variable without it being -- for want of a better word, eaten up by transmission being included in it.

Dan Molloy

Former Chief Financial Officer

So Matt, just to put some numbers to that in terms of last half year fixed proportion of our electricity revenues were 22%. This half year, they're 34%.

Matthew Allan Henry

Goldman Sachs Group Inc., Research Division

34%?

Dan Molloy

Former Chief Financial Officer

Yes. In terms of your question and in terms of opportunities in Australia and balance sheet capacity, I mean I guess we're still working through this slightly on the back of the downgrade from S&P. But essentially, we believe we've got capacity to at least do a similar volume to what we've done in New Zealand.

Simon MacKenzie

Group Chief Executive Officer

Lastly, Matt, with regards to your question on the materially better tester we're obviously still working through the analysis on this. But I think the fundamental issue is, at a high level when we look at overseas jurisdictions, when there are merits appeal they are usually much more definitive around whether or not an outcome is better and, for example, if they're talking about a WACC determination then it's typically more binary, I guess. And what we see has occurred here as essentially a situation where it's much more subjective and very much seems to be deferring to a view that the regulator is the expert in this space and therefore, they should defer the guidance to them. I think also that what we are saying with this materially better test is there's a real absence of how can this be quantified because in some parts of the judgment, they're saying some of the factors put up by other parties were not material enough. And then in other cases, they're saying well they would be too material and have an impact on consumers' prices. What that leaves is a complete gap of well, what actually does pass the test? And so those are the types of issues that we see are problematic. Certainly, when we look at the advice we've had from our

legal advisors, many of whom have been very active in this space in the Australian market in particular, they see this as the problematic aspect of the regulation that's drafted at the moment or the legislation in contrast to Australia.

Operator

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

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

[indiscernible] questions from me [indiscernible] following on [indiscernible] regulatory question. You said that in some comments around what you expect with the Commerce Commission looking at consulting on the 75th percentile on the WACC, where that might end up? And secondly, just around Kapuni production markets in your comments you noted that production was down in the first half of this year to around about 32 TJ per day. Are you able to give us some idea what sort of production levels for the second half?

Simon MacKenzie

Group Chief Executive Officer

So Andrew, on the first question with regards to -- I think your question was around the discussion around 75th versus 50th percentile in the WACC discussion. Obviously, the Commerce Commission have gone out with a consultation around whether or not people should -- whether or not they should look at this. I guess in our perspective, the courts didn't instruct them to look at this. They said it might be something that they would want to consider. In our view, there was a whole lot of other issues that should be guidance and should be considered as well. I think the reality is, is that going through the whole process around WACC determinations and everything, the commission has always, in our view, basically see that the 75th percentile is appropriate to recognize the other estimation errors and the potential risk for underinvestment, so that's been their position. They've previously even looked at supplementing that kind of potential error correction with putting bands around WACC parameters as well and then as you recognize a few years ago or through the inputs process they moved back just down to using the 75th percentile. So from where we sit they've actually -- they've recognized that there are a number of errors in the whole WACC calculation. They look at the risk and they see the 75th percentile as the right factor. Whether that was documented and set out strong enough is a matter of debate. But obviously, from where we sit, we'll engage in that debate. We strongly believe that there are a number of issues with the WACC parameters and the 75th percentile should remain in place. But there are other aspects such as 5-year versus 10-year rates, which we raised through the whole merits appeal process as well. And importantly, I also think the way in which the cash flows are derived from regulated assets now also needs to be looked at closely because of the way in which a lot of those test flows are back-ended. So simple answer is it's obviously, as you know, a very complex area, simple pointers that the commission have always defended the 75th as where they should be and we'd expect that they should maintain their position on there. With respect to production at Kapuni, down at around about 33 PJs (sic) [TJs] as a result of lower flows from a few of the wells and Dan might give you a bit of an update on where things currently track.

Dan Molloy

Former Chief Financial Officer

Andrew, in terms of the second half, we're expecting production of around 40 to 45 TJ per day relative to 32 in the first half.

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

And just one other question, you commented that electricity revenues [indiscernible] increased significantly. Have you done something similar around the gas revenue?

Simon MacKenzie

Group Chief Executive Officer

So in the gas revenue

[Audio Gap]

restructuring of tariffs but we didn't do much adjustments there. And then transmission is always based on capacity entitlements anyway.

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

Sorry, I didn't quite catch the beginning [indiscernible].

Simon MacKenzie
Group Chief Executive Officer

No, we haven't done too many adjustments in the gas distribution space, Andrew.

Operator

The next question comes from Felicity Wolfe with Energy News.

Felicity Wolfe

I was just wondering with some of the -- around the work that's been done with regulations and the Commerce Commission and stuff like that, have you got any kind of figures or around just how much that's cost Vector over the last year?

Dan Molloy
Former Chief Financial Officer

This is with regards to what, regulation in general or -- sorry, I'm not quite sure of the question.

Felicity Wolfe

Yes, just I guess the court appeal of the...

Dan Molloy
Former Chief Financial Officer

Okay. Well, I mean I guess -- certainly, we don't disclose numbers with regards to appeals. Obviously, we have all forms of legislation and cost with legal compliance and everything. We haven't gone any detail but there has been an increase obviously. It has been a reasonably expensive exercise. But in the context of the importance in the costs when we see things occur such as Standard & Poor's downgrades and the effect on our share price through uncertainty, it's immaterial given the rest on the other side.

Felicity Wolfe

Yes. Just another question as well just around some of your technology side, I understand that it's been doing -- sort of following the U.K. Smart Grid forum and looking to implement some of these stuff on your own network. How's that going?

Simon MacKenzie
Group Chief Executive Officer

Look, I think 2 set parts. One is we joined the U.K. Energy Networks Association. We saw that was important for us to continually look at what's going on around the world. We obviously have relationships with players in the U.S. and also in Asia as well. That's just part of the wider perspective we have here to need to look externally to what are the trends going on with customers, what's going on with technology. The Energy Networks Association have obviously been working closely with a GBP 500 million fund that's available in the U.K. where that fund is available for people to put in place new technologies that are relevant to the market conditions over there. So we've found that beneficial. We've been involved for about a year. We get all the research reports. I think it's very much a 2-way street. They also look at what we're doing in areas such as protection systems, other technologies around our smart networks. We feel that we are well advanced in the smart networks space but we can't sit on our hands and we have to

continue to look at improvements. A lot of that smart network development and technology is around the convergence between the IT technology communications and new devices on our networks. And so we will continue to look and learn at what's going on in the U.K. and other markets. I think it would be fair to say that because of the fund in the U.K. is relatively new, we're just starting now to get some of the new results of some of the new products and trials that have been put out there. Those lessons learned, so our guys have been up there, understanding what are the lessons learned and then we look at applicability or otherwise for our own networks.

Felicity Wolfe

And so just finally, just your solar Genie program, how's that going?

Simon MacKenzie

Group Chief Executive Officer

Well, I guess from our perspective, it's going well. I think the really important part about it is it's very much around the customer. We're getting a lot of positive customer feedback around the solution. And the fundamental point here is that this is around choice for customers, technology costs are dropping. If we sit on our hands and we didn't recognize and innovate, we would potentially be putting more money in our networks that may be wasted capital in the future. Certainly, the feedback from customers is very much around the ease of getting the solution that's a viable and cost-effective solution, it makes it affordable to people. And from a network perspective, a really important component is the battery storage, making it usable 24/7 in the information system. So yes, we're very positive. Obviously, we'll continue to adapt and evolve new products and services off that. But yes, I think we are very happy with where we sit at the moment on it.

Felicity Wolfe

Yes. Do you still see it as a trial type program or is it something that's becoming more integrating into [indiscernible]?

Simon MacKenzie

Group Chief Executive Officer

No, I'd say it's more of an integrated program. I think obviously these things started as trial. When does a trial become more of an integrated? Well, we have an absolute focus on continuing this. It's around -- and now, this development of variations on solutions whether they be for businesses, whether they be for different types of customers, whether it's for different customer segments, such as like we talked about, iwi, new developments going in. So there'll be different options that we will be developing for those different markets and customer needs.

Felicity Wolfe

Sorry, another -- last question was my final one but I also just wanted to quickly ask you about the gas wholesale side of things and how do you see that market developing?

Simon MacKenzie

Group Chief Executive Officer

Well, we've always been as -- we've always articulated that we had legacy gas but our position was always mid-market aggregator, where we have a very strong ability to meet the different customers' needs by having a diversified portfolio of gas purchases and matching it with the demand on the other side. We continue to have a strong presence in that market. And as mentioned, we also are seeking to negotiate price for the other legacy gas entitlements that we have rights to, albeit not at the legacy gas prices. So we're not seeing -- to be fair, we're not seeing the gas market grow significantly. I mean, I think that's been a pretty common factor over the years but we managed that book really well and we continue to retain our market position as the mid-market aggregator.

Operator

The next question comes from Pattrick Smellie with BusinessDesk.

Pattrick Smellie

Simon, I just wondered whether -- given the potential significance of the change to the 75th percentile whether you'd considered [indiscernible] [indiscernible] there?

Simon MacKenzie

Group Chief Executive Officer

Patrick, I mean, I think like with a lot of these issues, the 75th percentile, I mean, we are just potentially in a start of a process. The first point is, is the commission is going out to seek views on whether they should review this. Then they have to make a decision of whether they will. That's also kind of, I guess, got in parallel with it an issue around whether or not the MEUG appeal to the courts actually it's upheld and gets heard. And then there has to be a process that's gone through around whether or not the 75th is the right one or the 100th percentile is the right number or the 50th percentile is the right number. So as with any of these issues, we are saying that, yes, it's an issue. But with regards to, has there been a final decision? No, that's still very much up in the air.

Pattrick Smellie

Have you done any back of the envelope or even front of the envelope calculations internally as to what the impacts would be if there was significant more there?

Simon MacKenzie

Group Chief Executive Officer

Well, we always model a whole range of factors with regards to WACC calculations. I think a lot of people also forget that at the same time interest rates can be moving. And so it's a kind of combination of a lot of the factors that go into the WACC calculation. I don't think you can just look at a move from 75th to 50th in isolation of all the other input parameters. We model these on a regular basis. We also model what it means to forecast in terms of whether or not we sit on a default price path, whether we want to adapt to go for a customized price path. And so yes, it's just pretty much those kind of obviously ongoing modeling aspects.

Operator

The next question comes from Stephen Hudson with Macquarie Group.

Stephen Hudson

Macquarie Research

I guess just following on from that last question and perhaps a question for Michael and Dan. Is the board comfortable that the current dividends would be sustainable under a P50 WACC scenario, either under the CPP or DPP options? That would be my first question. And then secondly, with regards to the guidance, what sort of level of full year capital contributions are you comfortable with? Obviously, you can't see what we're using but would sort of annualizing the first half be a reasonable starting point?

Dan Molloy

Former Chief Financial Officer

Thanks for the questions. In terms of the -- I guess looking at the dividend and whether the track of growing dividends is sustainable under a P50 scenario, we've done some work there. It suggests that the dividend growth and track is sustainable. Obviously there'd be a reduction in headroom under that scenario. In terms of the full year capital contributions, I think that what you're suggesting is probably we're roughly comfortable with that. I mean, we're definitely seeing an uptick in...

Stephen Hudson

Macquarie Research

Sorry, Dan, you were just breaking out [indiscernible].

Dan Molloy

Former Chief Financial Officer

We'd be comfortable with your suggestion around annualizing based on first half numbers.

Stephen Hudson

Macquarie Research

Okay. And sorry, you said that the dividend is sustainable under P50?

Dan Molloy

Former Chief Financial Officer

With a reduction in headroom.

Operator

[Operator Instructions] At this time, we're showing no further questions. I'll now hand back to Mr. Stiassny for closing remarks.

Michael Peter Stiassny

Former Chairman

Well, thank you very much everyone and look forward to catching up with you in 6 months' time with continuing good news. Thank you.