Question and Answer

Analyst

Could you just give us a little bit more color on a state-by-state basis on the performance of Lumo in Victoria? What may need to change there to see the growth pick up to where it's been historically? And what's been happening in Queensland and South Australia and New South Wales?

Marko Bogoievski
CEO & Director

So first, the easy one. New South Wales, we haven't really had any activity. So our current view there is that you'd want us -- I think you'd want to see where this privatization program is going to land before you'd commit significant resources in terms of retail acquisition. And that's about -- actually, that's our current view, and we wanted the situation in that market. I think it's very clear that those retail bases in New South Wales are going to sell. What's not clear, really, is the generation model, to what degree of independent generation will be in that market and whether the trader contracts will actually survive the final contract processes there. So what it means is we have to focus on other states. Victoria is our core. Obviously, with the wholesale prices being low, virtually, across the board, you've seen a lot of activity. And Victoria's been the most mature market now for a long time. So I think the majors, the two large players, but also some independent players have ramped up, win back and acquisition activity. So I think that's quite in tune. I wouldn't view that as a long-term tune, right? But it's definitely a 20-plus percent tune market. So you got to get your cost structures to a point where, particularly around acquisition, that can sustain healthy long-term margins, understanding that level of retail activity. South Australia's a little bit different, because it's very difficult to get financial hedges from that market given the strength of some of the majors. We have diesel peaking facilities in that market. We are able to acquire aggressively in retail. So you see lower tune in that space, and we continue to see customer growth in South Australia. In Queensland, I think, again, we're investing quite a lot in acquisition activity. The difference is there, we have actually moved prices quite a bit relative to some of the incumbent players. And that's a market where I think margins still have some way to move before it's either be fundamentally attractive. So I mean, overall, clear about that, Lumo is actually maturing nicely into a business, but no one's taking this sort of retail intensity for granted.

Analyst

Marko, just a question on the confidence on not having the excess gas position in 2013 for the Victorian supply possession. So what gives you the confidence that you won't have to have those sort of excess gas positions on 2013 and post 2013?

Marko Bogoievski
CEO & Director

Effectively because the conference comes from we're in landed contracted positions. So it's not a projection. It's not a view on what we might achieve. Gas in Australia is a physical market. So you do bilateral deals with real third parties to secure your energy. And we're effectively coming to the end of previous arrangements, which reflect take-or-pay type structures, which effectively force you, mostly, unless there's a big field outage like there was this half year, to be selling a lot of gas into what's been a weak spot. With the end of those arrangements and we're in the start of new arrangements, much more flexible arrangements around their take-or-pay structures -- we've also got storage now as part of our portfolio. And so you've got that combination of storage and flexible supply contracts, which means you can actually work your gas portfolio in a much more balanced. So 2013, the only uncertainty is just how many gas customers we're going to have, not about their contract position.

Analyst

Get more flexible contracts.

Marko Bogoievski

CEO & Director

We have them already.

Analyst

You have them now, but...

Marko Bogoievski
CEO & Director

Yes, they're scheduled to start in later periods. And so I think that's the key, and the last phase of the job that residual is winter next year, okay? So that's why we're cautioning about not extrapolating this half-year's performance necessarily into next year. Any more questions in the room?

Analyst

Marko, given the success of the low-cost carrier relationships at Auckland and Christchurch, what's the outlook for Wellington Airport in terms some of your partnerships?

Marko Bogoievski
CEO & Director

I'm going to ask one of the two directors online. Tim, you know what we've got there?

Tim Brown

Well, clearly, there's been a big step up recently with Jetstar, who are very much in that low-cost category. And also, clearly, there's been a tremendous response by New Zealand in terms of the quality and pricing of their offering. So we are getting the spill-off benefit. Ultimately, we see the New Zealand aviation market integrating with the Australian aviation market. So what you see happening in Australia now will ultimately happen in New Zealand as well. It's just a matter of when it occurs. And in the meantime, we're marketing everybody we can think of, but it'll take time. And the other thing, one of the reasons behind The Rock's development was to create a gateway that would actually be attractive to long-haul carriers, with the objective not just of plugging into the Australian market, but ultimately, we do see Wellington Airport as a gateway to Asia. And that's just a matter of the 787s finally turning up, basically.

Marko Bogoievski
CEO & Director

Sheryl, are you with us? Can we take questions from the phone, please?

Operator

The first question comes from Wade Gardiner of UBS.

Wade Gardiner
UBS Investment Bank, Research Division

Can you, first of all, just expand on your comments about the contract structures within NZ Bus and why you are more comfortable that you're going to get a good outcome there? And the second question, I just want to understand, within Infratil Energy Australia, sort of a normalized number for that result. And specifically, were there any bad debt provision or write-backs that added to the number? And also, that gas book situation, the level of the losses or gains in the half year.

Marko Bogoievski
CEO & Director

So on that first one about contract structure -- first, can you give Bruce Emson the mic? Perhaps, he's best off to -- we've got the Chief Executive of NZ Bus in the room. There's no free lunch here, so you want to have a crack at that, Bruce?

Bruce Emson

Former Member of the Management of Morrison & Co Infrastructure Management Limited

Confidence around contracting model is based on ongoing dialogue we've been having with both the Ministry of Transport and the NZTA, so the transport agency, in conjunction with both at Auckland Transport, Greater Wellington and Environment Canterbury. It looks like a reconstruction of the contracting model. We are in early stages of negotiation with them at the moment, or perhaps not a negotiation, of work with the central government agencies in pulling together a new contract model. Confidence around that is high, and it's not delivered yet. We've been talking about it for a couple of years, but confidence is increasing that we'll see something in the early part of next year that would give extended terms on much greater confidence for the business and investment in the business, going forward.

Marko Bogoievski
CEO & Director

Wade, on that second question, as I said, I mean, I walked through the outlook for IEA, I think, exactly for the reasons that you're asking the question. I wouldn't take the current $61 million for the half-year Kiwi performance, since that's the normalized number. No one's pretending that. But if you work your way through that, we've got a full year outlook of anywhere of from AUD $30 million to AUD $38 million. I think that is slightly higher, probably, than where we'd say our best guess is for 2012, and that gives you a view, really, of what you're starting with. And I can easily see this business returning to these levels by 2013. And 2013 is, as I said, the first real period where these gas issues are not going to be part of this performance for Infratil Energy Australia. So that's the sort of trajectory I can see. There were no write-backs for credit. So the result hasn't been supported by writing back provisions taken in previous periods. In fact, I think we're fully provided. I mean, Kevin, how would you talk to that?

Kevin M. Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Well, we had a big catch-up for provisions in the prior year. So in terms of this year, we have held provisions pretty much at the same level. So of course, that does mean that our expense, in terms of bad debts and provisions, is lower than the comparative period last year. But we're basically holding provision levels at what we think is comfortable and what we see it at the of the March 2010 year, and we've carried that through to this year.

Marko Bogoievski
CEO & Director

So I think, Wade, that benefit that Kevin's just referred to is about AUD $4 million.

Wade Gardiner
UBS Investment Bank, Research Division

What about the -- just in terms of the gas book, the losses there?

Marko Bogoievski
CEO & Director

Is your -- your question is what were the losses, did you say?

Wade Gardiner
UBS Investment Bank, Research Division

Yes.

Marko Bogoievski
CEO & Director

Well, essentially, they weren't significant, because we had a balanced portfolio. So if again, if I asked you to look at Slide 15, if we achieve that full year outcome, relative to the previous year, we were fully exposed to this excess gas length. We think there's about a AUD $15 million benefit of having a balanced portfolio, and that benefit is more indicative of a normalized performance for that book.

Wade Gardiner
UBS Investment Bank, Research Division

I'm just trying to understand sort of a half-year seasonality versus all the abnormals that have gone through.

Marko Bogoievski
CEO & Director

Okay.

Operator

The next question comes from Grant Swanepoel of Craigs.

Grant Swanepoel

Marko, can you just give some color on this huge material market share change in Greenstone since you guys took over? It would appear as though none of what you've really done would have had time to take effect. And this year, I see kind of some contracts that weren't there before. And then next question and excuse my ignorance on this, is the Longtom supply issue entirely over in Australia or not? So you're not going to get the benefit at all from here on? And then the final question, if you can just touch on what you think the management's fee might be for the full year after the big kicker due to the Perth in the first half?

Marko Bogoievski
CEO & Director

Just quickly on Longtom. Longtom has resumed normal transmission, so there's no -- So it's operating, my understanding is, as it should be, that asset. So there's no more ongoing effect of that. I mean, Greenstone market share, yes. I mean, yes, we talked about buying a business with momentum, but we'd probably capture a little bit of credit for -- and I don't really know how to attribute this gain. There's a little bit of benefit, I think, of presenting yourself as a locally owned and managed organization. And why should we hide away from that? I mean, that's what we are, proud Kiwi organization competing against multinationals. But I think, in the commercial space, you're talking about hardnosed businesses, who may feel that sort of sentiment but effectively, will take their business on a cents-per-liter basis. And we're effectively, I think, just showing when you can make decisions locally and quickly, and you're competing against with reasonable autonomy, you can make significant gains. So the fact that market share has moved in small increments in the past is now moving in bigger chunks I think has more to do with the changing industry structure. So I don't think you just get that because we happen to turn up. And look, no doubt, I mean, sometimes stuff just happens, right? So one of our competitors had a major issue offshore. That does probably influence retail activity at the margin. You wouldn't expect that to be permanent, but customers are always smarter than you think, right? And that's the way we -- that's our basic plus. And clearly, they're making choices based not just on price. One of the, I think, issues in this industry is that it's a lot more than just price. Convenience, service, quality, location, power just as big a factor. So we're keeping that in mind as we make our investments in the future. Look, I've talked so much I've forgotten your third question.

Grant Swanepoel

It was on management fee?

Kevin M. Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

The Longtom -- that's about Longtom field as well, which is we're taking supply of gas from Longtom as we have in the previous years. So that's back up and running. On the management fee, the management fee for this half, excluding that fee was the same as the last half. In terms of what might happen in the second half, I guess we'd like to think that there might be a bit of an increase, because it's reflective of the increase and the value of the shares. So absence on increase and value of shares, it'll be about the same. If there's an increase on the value of the business then, the managers do increase in fee as well.

Operator

The next question comes from Rob Bode of First New Zealand Capital.

Robert Bode
First NZ Capital Limited, Research Division

Marko, just on Greenstone, can you give us any idea when the Shell brand may be dropped, just the timing of that or if there's any thoughts on that? And if you may or may not perceive any kind of sale and leaseback program going forward to release capital?

Marko Bogoievski
CEO & Director

Just so on the brand, I think, Rob, I mentioned during the presentation that we think the brand is just an inherent part of the strategy. So that work is just about to land in terms of its final conclusions, and it will hopefully give us a clear answer in the brand. So we're not pretty committed to changing from Shell. So we have the rights to use it. We have the option to change it. And the decision we based on a piece of work that's nearing completion. Let me put it that way. So unfortunately, I haven't got anything to tell you about other than what work's going on in the background in this place. I do think it's a good opportunity either way, but it's obviously the better way to go there. So I don't think it's going to complete until probably in the next full year result. So in leaseback, I mean, I guess it goes back -- you could argue that about any of our businesses. We are fully invested in -- how many buses have we got? 1,200 buses or -- we have got generation assets. We have got contracted revenues in some cases. So I think it's a reasonable question about how can you reduce the invested capital in this business and recycle it into higher return opportunities. I think for now, we're letting -- look, we expect to hold these businesses for a long time. So there's no rush to take capital off the table where there's no clear obvious advantage. I mean, obviously, we will. We're still for the taking. But in this case, it's much finer than that. And again, I think Greenstone, the financing at Greenstone is also linked to the strategy work that's going on. So we won't be doing anything again there quickly, I don't expect. Hopefully, I answered your question, Rob.

Robert Bode
First NZ Capital Limited, Research Division

Yes, that's fine.

Operator

I would like to advise there are no further telephone questions at this time.

Marko Bogoievski
CEO & Director

Okay. Thank you, Sheryl. Any more reflections in the room? Any more questions?

Analyst

Can you talk a bit about the capital expenditure execution versus [indiscernible]

Marko Bogoievski
CEO & Director
Yes, that was -- yes, that's right. So the question was really around execution risk inside TrustPower and, I think, specifically around the core billing systems. If you might remember in the full year result, TrustPower announced that they had paused their effort to effectively reengineer their IT systems and billing. So they haven't made -- TrustPower hasn't come out their pause yet. So they're obviously reviewing alternative options, including options with existing suppliers and new suppliers. I don't think that decision's too far away. It hasn't been made yet, and therefore, they haven't communicated. I think that it does feel -- I mean, look, compared to building, like, large hydro facilities or complex wind farms, billing platforms should be manageable, and there's good support available, both locally and in the region, so we're confident they'll get through that. All right. We'll leave it there. Thank you for coming to hear

the presentation this morning. As I said, we've got a number of directors and executives available for questions either here or in Wellington, and we look forward to talking to you again at the full year result. Thank you.