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PRESENTATION

Operator

Ladies and gentleman thank you for standing by and welcome to the 2010 Annual Results conference call. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session (Operator Instructions). I must advise you that this conference is being recorded today, Friday 27 August 2010. I would now like to hand the conference over to your speaker today, Mr. Michael Stiassny. Thank you, please go ahead.

Michael Stiassny - ***Vector Limited - Chairman***

Thank you and good morning everyone and welcome to Vector's full year market briefing in respect to the year ended 30 June 2010. Joining me on this webcast and teleconference is our Group Chief Executive, Simon Mackenzie, and our Chief Financial Officer, Alex Ball.

I'm sure you will have all appreciated by now that we're doing something a little bit different. Dispensing with the physical briefing and moving to a webcast and teleconference only. We're probably doing this because this is an exceedingly busy time of year for you and we hope that we have made our market briefing more accessible with this change and therefore of benefit to everyone.

Following this brief introduction, I'm going to say a few words about our full year dividend before handing over to Simon for a short review of the financial highlights. Alex will take a closer look at the financials and then hand back to Simon to discuss the key drivers, operational performance, regulation, security of supply and the growth options, and finishing with, most importantly, our outlook for 2011.

Once this formal part of the presentation is over, we will have time for your questions.

Firstly, in respect to the dividends, we're very happy that the Board has declared a final dividend of NZD0.075 per share, bringing total dividend for the year to NZD0.14, an increase of NZD0.25 on the year before.

The Board is very pleased to be able to deliver an increase dividend to shareholders. Even more importantly this represents a payout ratio of 51% of free cash flow, after replacement capital expenditure, which recognizes the current regulatory environment we find ourselves in and the credible growth options available to Vector as we move forward. I now hand over to Simon, who will talk about the highlights of the year.

Simon Mackenzie - ***Vector Limited - CEO***

Thanks Michael. Good morning everyone and thanks for joining us. As you will have seen this morning, profit announcement, Vector has recorded another year of steady growth in line with market expectations. We've seen growth in customer numbers, revenue and net profit. Considering the economy, reduced electricity volumes and the continued roll off of legacy gas contracts we're pleased with this result.

We have worked hard to preserve EBITDA, that dips slightly on the year before, primarily due to the long signaled wind down of legacy gas contracts. Net profit after tax is up 17.3% and this includes a onetime, non cash impact of tax regime changes arising from the budget. Backing this out, the Underlying NPAT has increased by 4.7%. So recognizing that approximately 60% of revenue is regulated and 40% is from very competitive and in some areas shrinking markets we are pleased with this result. Vector is in good shape, pursuing its growth options and focused on operation efficiently.

So now to take you through a detailed discussion of the financial result, in segmental performance, I'll hand over to Alex.

Alex Ball - ***Vector Limited - CFO***

Good morning everybody. Simon's just gone through the financial highlights so let me now take this opportunity to walk you through the income statement in more detail.

Revenue increased 1.1% to NZD1.19 billion, reflecting increases across electricity, gas transportation and technology. Operating expenditure increased by 2.9% to NZD609 million as a result of increased pass through charges such as transmission. No staff incentive payments were made in 2009 and as such we saw higher personnel costs in 2010. These increase costs were partly offset by savings in network and asset maintenance expenses, reflecting milder weather and ongoing savings generated from new arrangements with suppliers. These were put in place about 18 months ago after a review of service provider model.

Depreciation and amortization increased by 7.5% to NZD156 million, reflecting higher depreciation in our electricity and technology segments. The reason for this was twofold. Firstly we've seen an increased asset base across these segments as the Company continues to grow and secondly, we've revised the remaining useful life of certain assets. We were able to forecast there replacement in the near future. This has resulted in an increased depreciation charge which will be offset by reduced losses on disposals. We expect to see this trend in depreciation to continue into 2011.

Net borrowing costs fell NZD23 million, which I will discuss later. Share associated earnings fell as New Zealand Wind Farms has moved into the construction phase of the 48 megawatt Te Rere Hau wind farm.

Income tax expense fell by NZD19 million, due to changes in the tax regime announced in May which impacted our deferred tax liabilities. The reduction in corporate tax rate from 30 to 28% reduced the liability by NZD31 million. The removal of depreciation on buildings increased the liability by NZD9 million and capital contributions were made taxable, increasing liability by NZD1 million.

The net impact of these three adjustments is a one off non cash reduction in 2010's tax charge and correspondingly the deferred tax liability of NZD21 million.

Net profit after tax increased 17.3% to NZD194 million, however a better indication of profitability is to look at Underlying NPAT which has increased from NZD165 million to NZD173 million, excluding the impact of the budget tax changes.

In light of the economic conditions and reduced legacy Gas, this represents a pleasing increase of 4.7%.

Moving to slide 10, EBITDA fell slightly from NZD582 million to NZD578 million, reflecting the anticipated declines in wholesale gas and the one off management fee received in 2009 from the purchasers of the Wellington network. This was partly offset by increases in our gas and electricity segments.

Let's now look at the segments in more detail, starting with Electricity. With a backdrop of economic conditions and warmer weather which led to lower volumes, it was pleasing to see revenues increase 3.8% to NZD554 million. This increase reflects price adjustments made in April 2009 and 2010, in line with CPI and pass through costs in accordance with regulation. Pass through costs include transmission costs, council rates and electricity commission levies.

In addition, it was encouraging to see capital contributions reach pre-global financial crisis levels. For all segments contributions increased from NZD23 million to NZD30 million, year on year. We've seen a higher level of major relocations, customer substations and new service connections activity in the year.

Operating expenditure fell slightly to NZD198 million, reflecting savings in the network maintenance partly offset by an increase in past recharges and personnel costs and in addition, the loss on disposals fell by some NZD6 million.

As I mentioned earlier, depreciation increased in this segment as we refined the estimation of some of assets useful lives. For instance, we've accelerated the depreciation of some of our overhead assets, where we envisage moving to underground in the next few years. Therefore, for Electricity, we saw a pleasing improvement in EBIT of 4.5%.

Replacement CapEx fell NZD7 million, reflecting the milder weather and efficiency savings. Growth CapEx increased by NZD5 million, reflecting two major projects in 2010. Firstly a new 110 kilavolt cable from Liverpool and Quay Streets, which will support growth in the CBD, and a new substation in South Auckland.

Moving on to Gas Transportation, revenues are up NZD4 million. This increase reflects a number of factors including new distribution connections and an increase in transmission volume and an annual price increase in October 2008 and 2009, in accordance with regulation.

This was partly offset by a fall in market participant contributions for software developed to manage, schedule and reconcile gas entitlements on the Maui and Vector Gas Transmission pipelines.

Operating expenditure fell by a net NZD3 million and depreciation fell because of an extension of the useful life for our gas networks following an independent valuation.

Moving to slide 13 and the Gas Wholesale segment, as we've long been signaling the margins for our Gas Wholesale business continue to fall. EBITDA fell from NZD81 to NZD64 million. More than half of this decline came from our LiquiGas business. This is a result of the long anticipated expiry of the LPG Maui legacy contract in December 2009. The business now operates under an unbundled pricing schedule for tolling and storage of LPG and as such, receives higher margins for these services.

Earning from the Kapuni Gas Treatment plant also fell, reflecting reduced liquids prices from the high levels experienced in 2009 and reduced volumes being processed by the plant.

If we look at the production levels as disclosed to the MED, production fell from 21.13 PJs to 17.53 PJs in calendar year 2009. In addition, in 2010 we increased the decommissioning provision by NZD2 million.

Simon will talk about the Kapuni redetermination shortly.

The contribution from our Natural Gas business fell due to decreased volumes from the Kapuni field and lower prices. This fall was offset by OnGas, our LPG distribution business, which increased its contribution on the back of improved market share in the higher margin cylinder business and in addition we acquired two LPG businesses in Nelson and Taupo.

This segment also had a one off benefit of NZD4.5 million from the Bay of Plenty electricity settlement in February this year.

Now let's look at Technology, as you are all aware our Technology segment includes our Communications and Metering business. We saw increases in revenue across both of these. Communications demonstrated strong growth on an expanded customer base, provided higher value services and increased network usage by existing clients. Metering also continued to grow with slower displacement of our legacy meters and the continued roll out of smart meters.

Following the acquisition of AMS in February 2010, we've significantly accelerated deployment of smart meters and the full year revenue benefit of this is yet to come through.

Costs for this segment rose NZD9 million to NZD28 million and in 2010 we've seen some one off costs of AMS integration and the call for staff incentive payment and in addition we've seen higher head count as a result of the AMS acquisition and continued growth in the Communication business.

Also in 2009, we leased a provision for contractual indemnity of NZD8.9 million which is partly offset by a write off of some historic development costs.

Without these one off factors we would have seen double digit EBITDA growth. Replacement CapEx fell NZD10 million. The 17% increase in growth CapEx for this segment reflects the rollout of smart meters and fibre network over that period.

Shared Services net costs increased from NZD38 million to NZD54 million. It's important to note that, excluding the additional staff in our Technology segment, head count has been flat across the Company and within shared services there was small reduction in staff numbers.

Revenue fell in this segment reflecting approximately NZD8 million of management fee revenue received in 2009 from CKI, the purchaser of the Wellington network, and in addition there was no incentive payment accrued in 2009 for shared services staff and fibre bid costs are included within this segment.

Let's now look at the cash flow statement, operating cash flow increased 11.3% reflecting improved profitability and improvements in working capital. Replacement CapEx fell 18.8% therefore overall we've had an impressive 67.5% increase in cash available to Vector to grow and finance its business. Growth CapEx increased by NZD129 million reflecting growth in our, sorry increased to NZD129 million reflecting growth in our Technology and Electricity segments.

In 2009 we received a net NZD773 million from the sale of our Wellington network. Investment activities increased from NZD4 million to NZD11 million, this uplift is due to participation in the New Zealand Wind Farms rights issues, acquisition of the remaining 50% of AMS and the purchase, as I have previously discussed, of two LPG business.

In 2010 our net borrowings fell by NZD33 million, reflecting the pay down of NZD40 million worth of floating rate debt at the beginning of the year. Therefore, while we saw a NZD60 million increase in cash balances, taking into consideration movements in short term deposits, the overall movement in cash and deposits was a reduction of NZD40 million year on year.

Borrowing costs fell NZD23 million, the reasons for this were twofold. Firstly, approximately 25% of our debt portfolio was floated and secondly July 20 2009, we took the opportunity to buy back NZD40 million worth of floating rate debt at a discount of NZD6.6 million.

Looking forward to 2011 we have approximately the same proportion of floating rate debt as we had in 2010 and as such we may see higher borrowing costs. However, our current forecasts are less than those issued by the analysts.

Moving on to our debt profile slide, we recently announced that we'd establish a new NZD50 million senior credit facility and a new NZD125 million working capital facility. These are both three year facilities that will expire in August and December 2013 respectively. These facilities reflect our business as usual headroom requirements and replace undrawn facilities that were due to expire.

Within the financial year 2011 the credit wrapped medium term notes issue of NZD250 million expires in April. As you'd expect, our plans to refinance this are well underway. Our capital structure remains strong with a gearing ratio of 54%. Net debt has fallen year on year from NZD2.49 billion to NZD2.45 billion. Our interest rate cover remains at a comfortable level of 2.5 times, an improvement on 2009 which was 2.3 times.

So in summary, given only 60% of our revenue is generated within a regulatory environment and the fact that New Zealand is still experience weak economic conditions, it is pleasing to see continued growth in our business. Thank you and I'll now hand over to Simon to run you through the operating review, regulation and the 2011 outlook.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Alex. So turning to Electricity, for volumes this year it was a story of two distinct halves illustrating the influence of the weather. When we reported in February, volumes for the first six months were almost flat with the year before. In quarter three we saw volumes nudge ahead of the prior year as customers used more energy to run air conditioning and combat the summer temperatures. However, in early winter temperatures stayed up, volumes fell away compared to 2009. So overall volume for the year was 8,168 gWh hours, down 0.09%.

Putting this in context, by segment demand from small to medium sized business decreased by 2.2% reflecting the difficult conditions that we believe the medium sized business are experiencing, residential by 1.2%, due to the weather and industrial and commercial by 0.02%, a much lower rate of decline than the year before.

To help put that in perspective, small to medium sized business are approximately 15% of our base by volume, residential 41% and industrial and commercial 44%. Connections, however grew by 4851, the same rate of growth as the year previous.

Importantly, network reliability improved during the year due to four main factors. Our vegetation management programs, the efforts of our employees and contractors operating under our new service arrangements, mild settled weather and upgraded technology. So our saving metric came in at 66.8 minutes, compared to 104.1 minutes for last year. Alongside improved network performance we have also seen a pleasing lift in customer satisfaction and health and safety.

In Gas Distribution we saw 1.8% growth in connections compared to 1.6% for 2009, reflecting growth across all segments. Volumes were almost flat, slipping by just 0.2 PJs. Like the Electricity business, there was better than expected revenues from capital contributions and we expect this trend to continue next year.

In Gas Transmission, volumes grew 2.3% to 94.3 PJs and we also completed agreements to build additional connections to our gas transmission pipelines. We connected our pipelines to Stratford Peka plant and completed a connection at Kupe to enable the gas to be shipped to market.

We have growth capital expenditure planned for the year ahead with three key projects, being the connection of the Stratford storage facility, the Papakura upgrade and the Edgecumbe pipeline relocation.

One issue affecting shippers and users of large volumes of gas is capacity rights on our Northern transmission pipeline. As most of the available capacity is already contracted on legacy long term contacts, we have limited ability to allocate capacity to new entrants to the market. We simply cannot ride roughshod over our existing contractual arrangements. However, we are working with the GIC and customers to find a solution. One possible solution is the establishment of a secondary market for the trading of capacity rights.

With respect to gas wholesale, the Gas Wholesale segment is complex and a key area focus with the areas of redetermination, legacy contracts, a changed business model for LiquiGas, emissions trading alongside the core task of growing our business. We are however in the sunset of our legacy gas contracts. In a very competitive market, with downward pressure on prices, our Gas team has won contracts to supply a number of blue chip customers and we have been active on the buy side. Replacing the expiring legacy contracts with new medium term contracts.

Our Gas book remains, therefore, in a strong position as we match gas supply to customer contracts for suitable durations. Following the expiry of legacy LPG contracts, LiquiGas, as Alex mentioned, has changed its business model and began charging for access to its infrastructure. Agreements have been completed with all customers for this model. Going forward, our operating statistics will include the LiquiGas tolling tonnage as a more relevant indicator of revenue.

OnGas has a bigger share of the LPG cylinder market. It has begun shipping LPG to the Pacific Islands, grown its presence with the purchase of two further businesses and won customers from competitors. It has now more than 28,000 customers on its books and as you've heard, revenue and earnings in this segment are down for a number of reasons.

In the context of the events of the year and challenges facing our gas wholesale business, I believe this to be still a very good result. In 2011 we expect to see a smaller decline in revenue and EBITDA for this segment reflecting the runoff of the legacy contracts.

Turning to redetermination, our legacy contract was struck at a figure of 1,010 PJs. We've had no contact from the Kapuni miners on this issue since our last market update and our position is unchanged. We are very confident that there is still plenty of gas left in the Kapuni field and interestingly it would appear that the miners do too, judging by the success of one of their new wells drilled this year and their latest disclosure in July, to the Ministry of Economic Development, with the reserves now estimated by them at 1,018 PJs.

We strongly believe that Kapuni's original recoverable gas reserves could be increased through a redetermination process and would have expected the miners to have pursued redetermination if they thought otherwise.

On the issues of emissions trading, while not a factor for the year we are reporting on, we have done a lot of work in this area to understand the possible impact for our business and the development of the policy in this space. Many of our gas contracts were drafted long be ETS was considered. As such, there is a lot of work to be done to understand where the ETS liability in some of our key gas supply contracts lie.

It is likely that we will be contesting ETS costs in relation to the Kapuni field and we strongly believe that the ETS scheme with have a neutral impact on Vector.

Turning to Technology, having been successful in winning smart meter contracts in a competitive environment we have recorded good growth, more than doubling the numbers installed over the past 12 months. Our install rate has improved since the acquisition of AMS and is now around 10,000 meters per month. Network communications had busy year too, adding new customers and growing its fibre network. I'll speak to the Government's fibre initiative shortly.

Importantly though, let's turn to regulation. A key value driver, as I'm sure you all recognize, for Vector. From a holistic perspective, regulation has a big part to play in improving New Zealand's economic outlook. The right regulatory regime as recognized by the Government, is necessary to support higher economic growth and close the gaps with Australia, fundamental to many policy goals for New Zealand.

Accordingly, regulation must be an appropriate mix of theory and commercial reality. The regulator must sense check its theoretical views against commercial expectations, incentives, benchmarks and practice. Given the size of New Zealand's capital markets, it is essential that regulation provides the right incentives and confidence for offshore capital to invest in New Zealand. We have said all along that regulation must provide certainty and stability for investment.

For a company like Vector, that is likely to invest more than NZD2.5 billion in its Electricity and Gas business alone, over the next 10 years, we're relying heavily on overseas lenders for funding. The current set of draft input methodologies, in our view, is an incomplete and inappropriate package. Why? Because it doesn't meet the legislative intent and purpose requirements of the Commerce Amendment Act.

We'd like to see the regulatory environment create a situation where customers and commercial interests are better aligned. Regulation must provide more incentives to encourage investment in issues such as energy efficiency, delivering better customer outcomes and providing customers with greater choice in areas such as undergrounding and other new infrastructure solutions.

We'd like to have the option of being able to invest more in New Zealand but the current environment is unconducive. We don't want this regulatory round to be a story of lost opportunity and more of the same old, same old.

Considering inputs methodology, I'll firstly speak to the weighted average cost of capital. The Commission's recent starting price adjustment paper included a worked example of the weighted average cost of capital for electricity of 7.57%. The paper, however, also has shown that the Commission would allow an addition 1% or 1.25% to set the top of an acceptable ROI band, which firms would be able to earn, at 8.57% or 8.82%.

While on the face of things, the top of the ROI band use by the Commission moves us closer but not close enough to an appropriate ROI, our concern remains the appropriateness of the parameters that make up the underlying calculation. On a simple comparison with Australia, we believe that the Commission's WACC is at least 50 basis points below the comparable WACC set by Australian regulators. When in fact, we would expect New Zealand WACCs to be higher than those prevailing in Australia on a number of fronts.

If the regime is going to promote investment this concern must be addressed. We released our electricity regulatory accounts also this morning, which outlined a rate of return of investment for 2010 of 10.35%. However, it is important to note that the disclosed ROI measure is volatile given the impact of revaluing fixed assets at CPI.

When you look at the ROI excluding revaluation, you will see Vector achieved the cash base return ROI of 8.4 %. This being the appropriate measure.

Further graphs dating back to 2004 and the Commission's own expert, Professor Wolick of Stanford University, recently noted that our prices have been maintained flat, in real terms, despite significant cost increases in materials and labor since 2004. This is in stark contrast to other components of consumer energy bills. It is therefore surprising that lines companies could face potential price reductions in the face of rising costs and furthermore regulation must ensure that efficiency gains are shared appropriately not removed.

We have worked extensively and very hard over the last two years to drive efficiency and reduce costs. Simply, these gains have to be recognized, not removed, but rather shared. It is critical that this reality is factored into the regulatory process.

The other key value driver for the inputs and methodology regime are the regulated asset base cost allocation and tax treatment. In the draft reasons paper released in June, the Commission allowed for some corrections for errors and the re-optimization of assets, which will provide some uplift in RAB. However, we strongly believe that the regulatory asset base measure is flawed and inappropriate starting point for a new regime.

Turning now to the timeline, for the inputs methodologies, the slide you'll be viewing, outlines the process from here. We are in the submission and consultation phase and there's still a long way to go in this process. We will continue to be extremely active in the debate, repeating our message of the need for complete packages that encourages investment and delivers commercially appropriate returns as well as stating our case for incentives to invest in the long term interests of customers.

Our grounds for argument are solid. The factors that the changes to the Commerce Act that we advocated for, have changed the game and we have new options to challenge the Commerce Commission's decisions. Any price changes determined by the Commission will take effect in April 2012 for electricity and July 2012 for gas.

Turning on to security of supply. We see the arrangement with Transpower as a very positive step in delivering security of supply across the Auckland region. Importantly, it also illustrates our success in working with likeminded parties to find joint solutions that benefit customers. In return for access rights, this contract delivers NZD53 million in additional revenue next year and will paid in two installments in 2011 and 2012.

It also enables us to upgrade key Vector substations supplying the North Shore NCBD in a more cost effective manner. With respect to growth, we've outlined how we grew our business this year. Looking forward the growth in our networks is largely linked to Auckland's growth and this represents and extremely strong opportunity for the business. Over the next 20 years, Auckland's population is forecast to increase by nearly 30%. There'll be new homes and businesses and with that demand for electricity, gas, new technology, new energy solutions and fibre connections.

Our CapEx and maintenance spend over the next decade, as I mentioned, on those core regulated businesses alone is estimated to be approximately NZD2.5 billion. We are only 20% of the way through our smart meter deployment and still have more than 400,000 to install over the next four years.

As you can imagine, this is a major exercise but there is still growth potential in the smart meter sector and we're pursuing other commercial models that utilize this platform.

The changes to the Electricity Act likely to be legislated soon, will also give us other options in areas that have previously been off limits, that we will evaluate.

Turning to the fibre process. We've lodged our proposals for Layer 1 and Layer 2 Fibre to the Door for Auckland. As well as an expression of interest to supply the fibre to rural Auckland schools and hospitals. The structure is ideal for a locally owned multi-infrastructure company such as Vector, where the uptake risk is taken by the Crown, while construction technology risk sits with the infrastructure partner. We advocated for Layer 2 inclusion from the beginning of the process, as it will enable innovation, multiple service providers and more choice in end services for the consumer, the potential to align with Australia and importantly create a competitive retail and wholesale market.

Clearly Vector is the ideal partner for the Crown. We have an existing open access fibre business and we are ready to expand the network now. In fact we continually do. We're infrastructure experts and predominantly New Zealand and locally owned. Each year, more than 95% of our dividend stays in New Zealand. Open access networks is what we do. We've had a fibre network for the past 10 years. We strongly believe that we have the best solution for Auckland. We have no legacy copper assets, or complex structural issues to contend with. However, as we have stated numerous times, we are open to alternate models and partnerships. The current process however does not provide for this.

If we are the successful bidder, our shareholders will benefit, not only economically but socially as well. We have advocated for and are already delivering open access fibre to the door. We have the best solution for New Zealand, locally owned and in conjunction with the New Zealand Regional Fibre Group, a national solution, that is simple, clean, fast and importantly, ultimatum free. We're ready to start expanding our fibre network by the end of the year in line with the Government's election promise.

So turning to the outlook. Looking forward, while we expect no major improvement in economic conditions, we do envisage steady growth, from a low paced global financial crisis base. Underlying growth in our network businesses will continue and we'll continue to develop growth opportunities and drive productivity.

We note that some analysts haven't updated their models for the Transpower deal. For those that have, we are comfortable with the current forecasts for 2011. Of course, we continue to invest in our core regulated businesses for growth, security and reliability and we continue to explore other options. Our smart meter business is a good growth business where there is still opportunity to expand into adjacent markets as well as expand the current contracts of 550,000 meters, both organically and by acquisition.

We've worked hard to be well positioned in respect of the ultra fast broadband opportunity.

So I'd like to conclude today's presentation and open the floor to questions. But lastly, I'd like to recognize and thank all the Vector team, our suppliers and our contract partners for the excellent results from the last year.

QUESTION AND ANSWER

Operator

Ladies and gentlemen, we will now begin the question and answer session.

You first question comes from Mr. Wade Gardiner from UBS. Please ask your question.

Wade Gardiner *- UBS - Analyst*

Hello Simon, how you going? A couple of questions here. First of all, you talked about active on the buy side, replacing some of those gas contracts with medium term contracts. Can you give us a bit of detail around the length of the book that you've got and how much you've actually replaced there?

Second question is, given your comments around the input methodology in the current regulation, how is that actually impacting on your current growth CapEx, because for electricity you spent NZD57 million in the current year, which was up on last year. It doesn't seem to be - should you actually be pulling that back given the uncertainty?

Third question I have, if the Fibre deal goes to Telecom, you were saying that the current model doesn't allow for working with partners, so what's Plan B? Can you turn around quickly and take a deal to them whereby you will work with them? What's the process there?

Simon Mackenzie *- Vector Limited - CEO*

Hi Wade. Look, I'll try and capture all those queries. The point I was making with respect to gas contracts, if we look at the market dynamics at the moment, we're seeing customers contract typically two to three years out. We have a portfolio of products, as you'd expect, where we have some longer dated buy side contracts with a lot of those being matched to longer dated customer contracts and then the two to three year contracts that we have recently put in place typically align with contracts that needed to either meet the sell side obligations that we have, or provide more flexibility. So essentially we're talking about kind of a two to three year window that after that, the ongoing positions are dependent on rolling over of existing contracts for primarily the commercial/industrial basis.

With respect to your question, if I picked it up correctly, it was around the impact of regulation on capital growth expenditure, I think it's primarily there that we're seeing a lot of the growth expenditure coming through and a number of big large one-off contracts and so those are backed off with contracts directly with the customers and in addition to that also meeting some of the demand that we did defer capital works on going back about 18 months going into the Financial Crisis and reflecting that we didn't expect to see volume growth on our network, or demand growth move as much as it has actually transpired. So there's a degree of ensuring that we invest in an appropriate timeframe.

With respect to your question around whether we should be backing that off given the regulatory uncertainty, that is something that we constantly monitor. We believe that we have an obligation to ensure that we're minimizing capital expenditure given the regulatory environment, but also maintaining as a core security and reliability and the growth is largely around maintaining our security and reliability levels. As you will see in our asset management plan we do identify a band of capital expenditure that kind of bounds from a low CapEx outcome which would link to an adverse regulatory outcome and higher capital band that would link a more positive regulatory environment where there would incentives to invest in improving network reliability to a level greater than it currently sits.

Lastly, with you question on if Telecom was successful in winning the LFC bid, the point I was making was that as it stands at the moment, the process we are in with Crown Fibre and under the Commerce Competition Law, we can't have a discussion with other potential partners that are competing for the roll-out of the fibre in our network area. What we have stated on a number of times is we are obviously happy to contemplate other alternate arrangements, but however that would have to be facilitated at this point in time, by Crown Fibre, or the Government. Obviously we work collaboratively with all the other NZRFG members, but that is on the basis that we are putting in offers for our own regions and not competing within regions. So that is the context. Should Telecom be successful in the fibre process, we still see that there's value with our fibre network and also reflecting that we have long term contracts from many of our customers, and also provide services to the future upgrade path of our electricity networks.

Wade Gardiner - ***UBS - Analyst***

Okay, thanks.

Operator

Your next question comes from Jason Lindsay from ANZ Capital. Please ask your question.

Jason Lindsay - ***First NZ Capital - Analyst***

Hi Simon. Just a couple of questions from me. Where do you see the sustainable level of EBITDA for the wholesale gas business is the first question, taking into account of course your guidance for next year, but where you see it settling down at?

The second question was, if you strip out the one-off net impact on technology last year, it looks like EBITDA may be increased around NZD7 million a year, but you split that between Telecoms, N Meters and also the split of the growth CapEx of NZD54.4 million.

Simon Mackenzie - ***Vector Limited - CEO***

Yes, hi Jason. I guess the sustainable level of EBITDA with regards to gas wholesale is to be blunt a moving feast. That has got a high dependency on market gas pricing and conditions volumes, recognizing that it comprises of obviously wholesale gas, but LPG plus processing. As I think we said in the presentation that we don't expect a decline at the same level as this year. We're at a much more sustainable kind of level. There will be a slight decline, but that is obviously got the dependency on the extent of competition in the market for re-contracting customers.

The second question you had was with regards to splitting of the technology. We don't split that out, but you are correct that we have seen good growth in the telecommunications business, whilst also recognizing that a reasonably large chunk of the CapEx from a growth perspective, in that segment, is due to the installation of and significant lift in volumes of smart meters being deployed, where we're now hitting about 10,000 smart meters a month.

Jason Lindsay - ***First NZ Capital - Analyst***

Okay, thank you.

Operator

Your next question comes from Pattrick Smellie from BusinessDesk. Please ask your question.

Pattrick Smellie - ***BusinessDesk - Media***

Hello Simon. Two questions. Can you say what you spent so far on the fibre bids and secondly in saying that you're comfortable with the analysts forecasts range, what is that range?

Simon Mackenzie - ***Vector Limited - CEO***

Look, no we're not going into how much we've spent on the fibre bid. I think it's fair to say that the best context around this is that we look at this on the same basis that anything that we seek to pursue, that we will spend an appropriate amount of money recognizing first and foremost, that it has to be an attractive commercial proposition that we have to continually deliver increasing and sustainable dividends to our shareholders, but importantly to say that we also have a very tight cost control on how we run these projects analogous to how we would run acquisition activity. So, it is something that we have invested in appropriately and we in board are comfortable with the level of expenditure and tight processes around that.

With regards to the question on analysts forecasts, that's roughly in the range on net profit after tax of between NZD180 million and NZD 208 million. That is the range where parties have put that, having taken into account the Transpower deal that we've struck.

Pattrick Smellie - ***BusinessDesk - Media***

Thanks.

Operator

Your next question comes from Andrew Harvey-Green from Forsyth Barr. Please ask your question.

Andrew Harvey-Green - ***Forsyth Barr - Analyst***

Oh hi Simon and Alex. Just a couple of quick questions from me. First of all on the electricity side and those reduced maintenance costs. How much of the reduced costs was, I guess, with the related business ongoing savings? The second question was just around interest cover ratios and I guess what's your long term deferred interest cover ratio? You've sort of indicated you're happy with the increase from 2.3 to 2.5. I mean are you wanting to keep it above 2.5 or where is the minimum level you want to have that?

Simon Mackenzie - ***Vector Limited - CEO***

Yes, hi Andrew, Simon. Sorry, you just broke up a little bit so hopefully I captured your question. My understanding was you asked about the maintenance in electricity, the reduction there split between how much was attributable to weather and how much was attributable, I understand possibly to the impact of our new service arrangements. Approximately as an estimate, recognizing that these things can move around because of weather related impacts, that approximately 50% would attributable to weather and the other 50% possibly a little bit more, to the cost and performance measures put in place for the new service provider's contracts. I'll pass you to Alex just to answer the question with respect to interest.

Alex Ball - ***Vector Limited - CFO***

Thanks Simon. In terms of the level of ongoing interest cover, fair to say I think we're pretty comfortable where we sit currently going forward, both in terms of interest cover and roughly in terms of the gearing ratio of around 54%. So we're comfortable at that level.

Operator

Your next question comes from Grant Swanepoel from Craigs.

Grant Swanepoel - ***Craigs - Analyst***

Good morning. It's just on - this is probably a question for Adam if he's around - if the WACC remains where it is from the regulator and with your expectations of what the adjustments might be as they currently are put out there by the regulator on your RAB and if you had put through inflation price increases through to the regulator year 12, what would you expect your P0 adjustment to be and that question is also in light of rating your dividend - are you confident that the regulatory environment going forward will not force you to cut a dividend on that front?

Then finally, while you won't mention the costs associated with your fibre venture, could you at least inform us if you've capitalised those costs for this year or whether that's actually have been expensed?

And finally, just a comment on your presentation - thanks for a very clear presentation. Better than the previous ones.

Simon Mackenzie - ***Vector Limited - CEO***

Yes, hi Grant. With respect to P0 adjustments, we're clearly not speculating on where that lies at the moment. I think there's a couple of really key themes to put into the mix here - is I think I pointed out in the discussion around the fact that we've released our regulatory accounts, there's a big debate around the rateable asset base and - regulatory asset base I should say - and 10.34 versus 8.4 when taking out the CPI valuation.

That said, clearly with the range at either 8.85 or 8.52 that with disclosures people could solve what the P0 may be. There's a big dependency about how much of an uplift, if the Commission stuck with the 2004 plus adjustments, we certainly believe that that's the incorrect basis for the Commission to start from. They previously put out decisions that they would do a new ODV so hence there should be an appropriate start valuation for the new regulatory period to start from 2010. So there's obviously a reasonable swing from that.

As we mentioned also, the need to get the WACC underlying parameter much more in line with reasonable expectations.

So the only other thing I would add Grant, with respect to P0 is that I believe that a number of people are kind of predicting that as a one-off. The Commission has a few steps to go through if there is a P0 at all. Firstly they have to ascertain whether or not there is any desire to claw back from 2012 to 2010 and then in addition is to how that adjustment, if there was to be an adjustment, should be made - i.e. whether it is as a one-off, whether there isn't one or whether it's factored into some modified EPS factor for a CPI minus X going forward, which you also have to take into account volume growth in the network.

The dividend position, clearly from a Board perspective we see the dividend at a level which we believe is appropriate, given the economic conditions, whilst also recognising the regulatory conditions. And furthermore I think you will see that it's reflective of a 51% payout free cash flow whereas policy guidelines is around 60%.

Michael Stiassny - ***Vector Limited - Chairman***

I think the key point is that with this type of stock it would be very unwise if we had great movement up and down in the dividend, and you should take this as a sign of either improving or at very very worst a minimum dividend moving forward.

Simon Mackenzie - ***Vector Limited - CEO***

I think also your last question was with respect to fibre costs - you're just reiterating there that they are in our view obviously appropriate, they're not by any sense excessive and they were not capitalised, they are expensed.

Grant Swanepoel - ***Craigs - Analyst***

Thanks very much.

Operator

Your next question comes from Stephen Hudson from Macquarie Securities.

Stephen Hudson - ***Macquarie Securities - Analyst***

Good afternoon gentlemen. Just a couple of questions and they really touch on other questions that have already been asked, but with regards to the Commission's seeming move on RAB for cost multipliers and found assets, can you give us some idea of what the potential uplift is there? I think in the past you have indicated maybe sort of 2% to 5%. And also if the Commission were to move on a new ODV handbook rewrite, are we just simply looking at the difference between CPI and PPI and so therefore something like say a 15% uplift there to take that into account?

Simon Mackenzie - ***Vector Limited - CEO***

I guess the - kind of two parts to that. There's obviously gas and then there's electricity. If we talk in respect to electricity in the first instance where you mentioned just updating the 2004, obviously there's not a lot of colour for want of a better word on where the Commission's thinking is exactly in this space, but our view would be that there are very identifiable inaccuracies in the 2004 ODV. They include not only optimisation issues which have taken assets out of the register, but also multipliers and costs that were reflective of that asset value at that time and we are talking in the, in my view probably more the 5% to 10% range. That said, that we do not believe that that valuation basis was in any way shape or form appropriate as the point to start for going forward, especially under the line of reasoning and argument that the Commission is now trying to articulate in its draft decisions.

So a new ODV is clearly the appropriate methodology and also note that we believe that under the principles of regulatory economics, the valuation should be done under the term of a veil of ignorance - i.e. it should be done on an appropriate basis to establish the appropriate valuation and then deal with - if that implied for example price increases - deal with that as a separate issue as opposed to doing a multiple kind of solve for an outcome.

So the issue is actually, from our perspective, around a new ODV. Clearly there is a starting point that you mention about the incorrect ODV basis. We have a working group with the rest of the ENA who have done an extensive amount of work of looking at where the updates and new ODVs would form and they are clearly in double digit numbers.

And, you know, I wouldn't want to give a range at this point in time, but it's certainly 15% plus as opposed to lower than that. That's certainly our historic experience.

The second issue is that with respect to gas, I guess an interesting indicator there would be when we were first controlled under provisional authorisation we articulated to the Commission that the ODV used was off a 1998 draft handbook. That was completely inappropriate for even an assessment of control or otherwise, however the Commission proceeded to control on that valuation. They then set about and put in place an ODV and a rigorous process which clearly revealed that that old handbook was out of date and the uplift in that was well over 50% from a valuation perspective.

Hence going back to the comment I made about a regulatory practice and principle being to get the appropriate valuation and then determine how you utilise that going forward, recognising, you know, impact on customers but also impact on business from an incentive to invest going forward.

Stephen Hudson - ***Macquarie Securities - Analyst***

That's great, thanks Simon.

Operator

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

Your next question comes from Edward White from Energy News.

Edward White - ***Energy News - Media***

G'day Simon. Just wondering what you see electricity and gas volumes doing heading into the next 12 months?

Simon Mackenzie - ***Vector Limited - CEO***

Yes, hi Edward. Look, I guess we probably need a crystal ball a little bit on that one. The issue can be broken down into a few parts. I think what we have seen stabilise is the kind of commercial industrial space, so that's kind of reasonably stable for when you're talking about from a volume perspective. The biggest swings obviously occur with regards to weather and how that impacts on rain into hydrology into thermal power plant production. From an impact financially most of the volume that's linked to thermal power plants is largely around capacity charges as opposed to volume based charges, so there's a degree of insulation there and booking capacity.

In the LPG market we see that we will continue to grow. We have gained market share. We have a strong proposition and we're investing more in technology in that space with some potential other acquisitions around reseller business and so we see that LPG market being able to grow and expand as well as the liquid gas model, from a volume perspective, as we mentioned earlier that will be moving to just a tonnage of handling, tolling charges.

So, you know, what we've seen over the last year in gas distribution in particular has been about a 1.8% increase. That probably will stay around that level for the foreseeable future.

Edward White - ***Energy News - Media***

Right, and another question if I may - just wondering with regards to the growth projects you mentioned - Stratford, Papakura and Edgecumbe - could you provide some detail as to what you think these will do for transmission volumes and revenue?

Simon Mackenzie - ***Vector Limited - CEO***

Yes, sorry, I didn't quite catch all that question, but those projects - we've got a number of projects in the gas space. One is they're principally around - the first one is the project where we're providing the connection to the contact storage facility, so that's really connection revenues related, and then the booking of the capacity on the system from contact.

The Papakura is an upgrade to supply more compression and volume through the northern pipelines and Edgecumbe is a pipeline shift to provide more capacity on the networks and storage. So, those are those contract investments.

In addition to that obviously we worked with, and continue to work with the likes of Genesis on potentials for the Rodney power station. We've been successful in getting the easements resolved for those assets as well as connections to the Kupe pipeline, so a connection contract for that as well as a connection contract for Stratford. I would also say that one of the other issues that we've got to put over the top of this is that our transmission gas business is controlled from a regulatory perspective where prices can only increase by CPI, so that's the kind of overarching issue in that space. The stand alone connection contracts are obviously bilaterals.

Operator

Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

There are no further questions at this time. I would now like to hand the conference back to Mr Stiassny.

Michael Stiassny - ***Vector Limited - Chairman***

Well thanks everyone for your input and I hope this has been useful and we will take kindly the compliments that have been made about how this is a better presentation and more useful.

So thanks very much and good afternoon.

Operator

Ladies and gentlemen, that does conclude our conference today.

Simon Mackenzie - ***Vector Limited - CEO***

Just ask if any questions - if they could be channelled through Anna Hirst from the Investment Community and from media through Philippa White. Thanks once again Simon and Alex.