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PRESENTATION

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

Good morning everyone and welcome to Vector's half year market briefing for the six months ended 31 December 2010.

I'm Michael Stiassny and joining me on this webcast and teleconference is our Group Chief Executive, Simon Mackenzie, and our Chief Financial Officer, Alex Ball.

Before I get to the agenda there, two important subjects that I must touch on. The first is the most recent earthquake in Christchurch. We, luckily, have accounted for all of our Christchurch people. The Board and management recognize that business and infrastructure has been severely disrupted by the earthquake. We are providing support to Orion where we can and acting on contingency plans for our own businesses in the region. Our thoughts are with our employees, their families and all the people of Christchurch.

Secondly, I wanted to speak briefly about Mr. Whimp and his below market offer to shareholders. I'm sure you all know how strongly both the Board and I feel about the actions of people like Whimp. The paperwork from a number of shareholders who fell victim to Mr. Whimp has subsequently proven to be incomplete. We won't be acting on those transfers as our lawyers tell us that to do so would be illegal. Our advice to these shareholders is to sit tight and not to do anything.

Before I hand over to Simon, I would just like to say a few words about the interim dividend. Alex will take us through the financials in detail and then Simon will talk about key drivers, operational performance, regulation, growth options and finishing with the outlook for the full year. There is time for questions at the end of the presentation and please follow the instructions of the teleconference moderator.

The Board is pleased to declare an interim dividend of NZD0.0675 per share, payable on 14 April. In terms of the full year dividends, the Board will make a decision in August, but Vector's dividend policy remains unchained, in particular, targeting a dividend payout ratio of 60% of net cash flow after replacement CapEx.

We are very pleased to see our share price where it is and also note that based on a total shareholder return basis that Vector was among the best performing stocks on the New Zealand Stock Exchange last calendar year.

It is now my pleasure to hand over to Simon to talk about the highlights.

Simon Mackenzie - ***Vector - Group CEO***

Thanks, Michael. Good morning everyone and thanks for joining us today.

Vector has been active on many fronts. Aside from a good financial performance in our core businesses we have also expanded our LPG business, made good progress in smart meters, moved forward priority negotiations in the ultrafast broadband initiative and are challenging the Commerce Commission's decisions on input methodologies.

In the capital market, our share price, as Michael has mentioned, as improved significantly and we have successfully raised funds through our US private placement.

This morning we announced to the market solid operational performance backed up by good cash flows. We have seen continued growth in total customers numbers, revenue and EBITDA. Volumes across our core networks were up across the Board and, naturally, we're very pleased with the performance and in meeting our own and the market expectations.

You will note that net profit before tax fell slightly. This reflects one-offs in the prior year's first half and higher depreciation in the current year. These factors, combined with a higher estimated effective tax rate for the full year, saw net profit after tax dip slightly by 2.8%. However, a key indicator of the health of our business is operating cash flow which increased by 2.1%.

I'll now hand over to Alex who will take you through more detail on our financial results, after which I'll return to talk about some of the key drivers, outlook and growth options.

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

Let's start by looking at the income statement. Revenue increased 1.4% to NZD629.3 million despite a fall in gas wholesale, which is more than offset by increases in all other segments.

Customer contributions increased from NZD12.9 million to NZD14.8 million and we expect full year customer contributions to be broadly in line with 2010.

Operating expenditure was up at net NZD1.1 million reflecting a provision for the liquidation of natural gas supplier, EGAS, in October. In addition, we had a full year's impact of AMS personnel costs following the acquisition in January 2010 and higher regulatory costs due to the current reset process.

Overall, this led to an improvement of 2.5% in EBITDA period on period, reflecting the continued solid operating performance of the business.

Depreciation and amortization increased by NZD5.7 million reflecting higher depreciation in our technology and electricity segments arising from the growing asset base and refinement of useful lives of some asset classes during 2010.

Results of the associates improved by NZD5.5 million, principally reflecting the impairment of our investment in New Zealand windfarms that was booked in the prior comparable period.

Net borrowing costs have increased by NZD8.4 million. This was due to the higher interest rate environment in the current period and in the prior period with the benefit of a one-off NZD6.6 million gain arising from the repurchase of NZD40 million of floating rate notes at a discount.

Tax increased by NZD3.4 million due to a higher estimated effective tax rate for the full year, principally due to the new tax on customer contribution introduced in May 2010.

Net profit after tax reduced by 2.8% to NZD98.5 million.

Improvements in electricity and gas transportation, technology and shared services have all contributed to the growth in EBITDA. This was partly offset by the anticipated fall in gas wholesale, however, it is pleasing to note that the fall of NZD9.5 million is significantly less than the decline of NZD13.8 million we saw this time last year.

Now let's look more closely at electricity.

Revenues increased 3.6% reflecting increases in both volume and capital contributions as well as a regulatory price adjustment made in April 2010.

Operating expenditure fell by NZD1.4 million. Despite this reduction there was an increase in professional fees from the inputs methodology submission process.

Depreciation increased by NZD2.7 million for the reasons we've already touched on.

Overall, for electricity we saw a pleasing improvement in earnings before interest and tax of 6.1%. Electricity replacement CapEx increased from NZD20.7 million to NZD30.4 million due to the timing of certain large projects. For the full year we expect replacement CapEx to be comparable with 2010 levels.

Gas transportation has continued to perform well. Revenue increased 8.8% to NZD111.5Â million, reflecting increases in both transmission and distribution revenues. Gas transmission benefited from the release of a provision for a contractual dispute and the Kupe field became operational in December 2009.

Period on period we saw a 23.3% increase in volumes.

While the portion related to Kupe represents additional revenue, the revenues related to additional gas generation did not. You may recall that gas generators primarily have capacity based contracts with us.

Gas distribution benefited from a regulatory price adjustment in October 2010 and additional capital contributions period on period. Over the period we've seen operating expenditure increase by NZD7.6 million reflecting the provision for liquidation of EGAS, increased professional fees from the regulatory submission process and some planned maintenance activity, including work on the Maui pipeline which was a pass through cost.

Gas wholesale EBITDA fell NZD9.9 million principally reflecting the previously identified fall in contribution from the liquid gas business.

Our natural gas business also experienced a fall in EBITDA. Lower volumes have been partly offset by higher margins and this fall in the natural gas business was offset by improvement in our Kapuni gas treatment plant where we saw increased production and improved pricing on a major LPG contract.

In addition, we saw increased cylinder sales in Ongas, our LPG business.

Moving on to the technology segment, period on period revenue increased by 9.3% reflecting growth in both metering and communications. Metering revenue grew reflecting the accelerated deployment of smart meters following the acquisition of AMS. Communications revenue grew due to the increased customers and selling higher value services to international carriers.

Operating costs increased by NZD1.8 million reflecting the acquisition of AMS and, in particular, we saw increases in personnel, technology and administration costs. This is partly offset by savings in the management fee previously paid to AMS.

It's important to note that depreciation for this segment is higher than the previous period as we've accelerated depreciation on our simple meters in accordance with the accelerated deployment of our smart meter.

Total expenditure for this segment fell from NZD28 million to NZD26 million reflecting a greater draw down of smart meters from inventories during this half.

Lastly, let's look at shared services. Revenue was marginally up reflecting a gain on sale of some surplus land. Costs fell by NZD2.2 million reflecting ongoing savings and a reallocation of incentive payments to the segments.

Looking at the cash flow statement, operating cash flow improved by 2.1%, as Simon outlined earlier, which funded growth and replacement CapEx. During the period we received the proceeds from the US private placement, which I'll talk about on the next slide.

You will also recall that net borrowings fell by NZD34 million in the prior comparable period, reflecting the buyback of NZD40 million worth of floating rate debt at a discount.

Finally, turning to our capital structure, in September we priced $182 million of unsecured notes in a private placement with US institutional investors. In December, we successfully placed this debt which amounted to NZD250 million. This debt matures in December 2022. The money will be used to pay the medium term notes that mature in early April 2011.

To proactively manage our debt portfolio and meet changing rating agency requirements, we commenced the process in May 2010 which revealed an opportunity to refinance early. Our rating agencies are comfortable with the proactive management of our debt.

No further refinancing requirements until February 2012 when a NZD50 million senior credit facility matures some 12 months away.

Vector's capital structure remains strong.

Note the positive impact in the prior comparable period's interest cover ratio of the NZD6.6Â million gain and the early buyback of floating rate notes. In the current period, interest cover sits at a comfortable 2.6 times. The gearing ratio has improved from the prior comparable period, as well as last year end, and currently sits at 52.2%.

Vector remains in a strong financial position.

Thank you. I'll now hand over to Simon to run you through the operating review, regulation and outlook.

Simon Mackenzie - ***Vector - Group CEO***

Thanks, Alex.

As Alex mentioned, I'll quickly outline some of the key drivers and metrics in our segments.

Turning first to electricity, customer numbers continued to grow reflecting the continued overall growth of the Auckland region. I'll touch on this in a bit more detail on the next slide.

However, we saw an increase in first half volume for the first time in three years with a 1.8% lift to reach 4298 gigawatt hours. SAIDI, our network reliability measure, declined. This was primarily due to the September storm which accounted for more than 30Â minutes, roughly equivalent to two thirds of the decline in SAIDI, less settled weather generally and a slight weighting of planned outages to the first half.

The regulatory year ends on 31 March and we expect to meet our new SAIDI target as set by the Commission, which is 127.3 minutes.

Electricity by segment, and looking at our customers, total connections continued to grow, but we have seen fall in the growth of new residential connections. Deeper analysis showed there was less activity in the multi-dwelling apartment market this year given the drop in apartment approvals compared to the year before, which largely explains this drop in residential connections.

Business connection trends, on the other hand, appear to have reversed with connections growth almost double the level of a year ago. Volume tells a similar story. Volume by customer segment shows that business customer volume grew while residential volume was flat, this being on the back of a warmer winter and a hot early summer.

Gas distribution. We saw strong connections growth of 7% reflecting growth in residential connections. Analysis shows a strong link between GDP growth and residential gas connections. Distribution volume was almost flat, up just 0.1 petajoules.

In gas transmission, volume grew 23% to 65.1 petajoules reflecting a full six months of Kupe, increased demand from thermal generators and gas being transported to storage.

In gas wholesale, the actions taken over the last two years to manage the impact of reducing legacy gas contracts have been beneficial. It is pleasing to note that the performance of wholesale gas, despite the wind down in these legacy contracts and intense competition, has reduced and the decline in EBITDA has been managed to a level less than last year.

In 2010 we moved to a new tolling based business model for Liquigas. As such, the two half years are not directly comparable. The gas wholesale market remains extremely competitive with downward pressure on prices. Our gas book remains in a strong position as we continue to get supply to customer contracts.

Kapuni mining companies have not progressed the Kapuni gas field redetermination for over a year. However, I would note that the miners have published field reserves of 1018Â petajoules greater than the original 1010 petajoules. So, discussions are progressing on our entitlement to gas above 1010 petajoules.

The emissions trading scheme has also introduced the requirement for extensive new systems and processes to manage this cost. In addition to this, we are also working through complex contractual issues regarding emissions trading costs, primarily with some of our legacy gas supply contracts.

Technology growth continues. In addition to the nearly 42,000 meters installed for Contact Energy we have installed just over 137,000 smart meters for Genesis, but still have approximately 363,000 to install for Genesis over the next four years.

So to achieve this, our smart meter install rates continue to climb and we are now sitting at around 12,000 per month. We expect to see that lift further in the second half.

Obviously, Vector Communications is operating in a very difficult market with respect to the changes going on, but I'm pleased to report that it has done very well over the last six month period.

Turning now to regulation, the new provisions of the Commerce Act allow the Commerce Commission's decision on input methodologies to be challenged. We think this is a very good thing as it is a sign of a mature regulatory environment. As you will recall, in 2008 Vector advocated for the changes to the Commerce Act. We rely heavily on offshore capital and from where we sit the Commission simply hasn't recognized the need for a balanced regime creating regulatory certainty from an investor perspective.

Regulation imposes a significant cost in our business, not only in terms of dollars but also in management and this uncertain regulatory environment has been a feature of the past decade.

Last week we announced our intention to challenge the Commission's decisions under error of law and merits review provisions. The changes to the Commerce Act specifically provide for a merits appeal process. This actually recognizes the need to align with international regulatory practice and provide the necessary checks and balances on critical decisions. In turn, this is seen as an essential part of creating regulatory certainty.

Vector changes from draft determinations. Our slide is for your reference and outlines the changes that the Commission has proposed since the last time represented to you, and we hope you find this of some use.

In preparing our responses to the Commerce Commission, we have engaged the best regulatory talent available in Australasia, including Australian lawyers with significant regulatory and merits appeal experience, economists and other advisors. Of course, we are restricting our appeal points to valid arguments that we believe have the necessary legal and economic weight.

In addition to Vector, there are a number of other companies also challenging the Commission's decisions, including Transpower and other lines companies. Where appropriate, and on common issues, where our appeals are similar we will continue to work closely with these parties.

The Commission will continue its timetable process of setting the default price path for electricity distribution businesses and gas pipeline businesses concurrently with the appeals process.

This chart sets out the regulatory milestones going forward for your reference, which we hope you find of use. As you can see, regulation continues to require a considerable amount of our time and cost, both at Board and management levels.

The action of challenging the Commission on error of law and merits review is a new process however, and as such it is difficult to know how long it will take. The High Court can overturn the Commission's decisions if these changes are materially better. I thought I would just touch briefly on the materially better issue.

Materially better is not just a financial construct. Essentially it covers whether the decisions meet the intent or purpose of the legislation. For example, do they create incentives to invest, certainty and consumer outcomes such as energy efficiency. Our Australian legal experts, who have been involved in many cases, advise that a materiality test is not just a minor tweak but neither is it a significant difference.

So, we will keep you updated on the timeline once we have a better understanding of it, which should be around the time the case management meeting is held.

Turning now to future opportunities, the growth opportunities outlined at our full year briefing remain. Our growth is largely linked to Auckland's naturally and this represents a strong and ongoing opportunity.

We've said previously that Auckland's population is forecast to increase by nearly 30% in the next two decades and with it there will be demand for new connections to our electricity, gas and fiber networks.

One of the actions we have taken in our wholesale gas business to build our presence in the LPG sector is the recent acquisition of Kwik-Swap, an LPG distribution company that sells and swaps 9kg LPG cylinders from service stations, hardware stores and other locations nationwide.

The Kwik-Swap model is the new channel for cylinders to market, making it convenient and mitigating many of the operating costs and other issues associated with petrol stations.

The next two slides address the opportunities we have both in metering and the fiber initiative.

Turning first to smart meters. As the leading provider of smart meters, Vector is well placed to take advantage of the rationalization we expect to see in not only the electricity market but also other markets.

Following AMS becoming a subsidiary in 2010, January, smart meter install rates have grown significantly and we expect to see these lift in the second half, as previously noted. As our install rate climbs we'll start to see the benefits of economies of scale in our metering operation such as purchase cost advantage and other benefits arising from the standardizing of systems.

With a meter compliance date of 2015 on legacy meters, close on the near horizon, we expect installations to increase even further. There is still plenty of growth potential in metering and we will continue to pursue commercial opportunities as well as new markets such as gas and water for advanced metering technology.

As you will know, last week Crown Fibre Holdings announced that Vector had been selected for priority negotiations and we remain in the running to deliver fiber to Auckland within eight years. We have begun these further negotiations regarding contractual terms and conditions, but our participation remains contingent upon this being a commercially attractive option for us.

Contrary to some opinions, I would like to note that there is, in fact, no incumbent fiber network operating in New Zealand and, as we have seen internationally, new operators are building fiber networks and changing not only the telco market but also other markets such as computing and entertainment through the provision of open access fiber networks.

Our position is that incumbency is significantly less relevant than some commentators claim. Eleven years ago Vector was forced to structurally separate and since then has operated in a highly regulated open access network. Having been through the process of structural separation, I believe that this will be significantly more disruptive than commentators can appreciate and, in my view, this must be taken into consideration when assessed against a party such as Vector that is not burdened by legacy copper networks, systems or complex structural requirements and can quickly and efficiently build a world-class fiber network in Auckland. This is also relevant in the other regional fiber network companies that we are associated with.

So, to recap, Vector is ready to deliver now and we can deliver fiber to Auckland ahead of the government's timeline. Our solution is uncomplicated and free from legacy issues. These are the reasons why, coupled with our largely New Zealand and community ownership, that Vector has the best solution for Auckland. We look forward to continuing our good faith negotiations with Crown Fibre in this competitive process.

Turning to outlook and summary, it's been a strong first half and in line, if not slightly above, market expectations. Historically due to the winter, Vector's financial performance is weighted more to the first half. We expect that regulation costs may increase over the balance of the year, however, that will be dependent upon the merits appeal process and in May we expect the Transpower deal to become unconditional with a revenue contribution of some NZD53 million.

We remain comfortable with analysts' expectations of full year profit.

So, this concludes our presentation today. We'd like to now open the floor to questions, and please follow the instructions of the moderator. Thank you.

QUESTION AND ANSWER

Operator

(Operator instructions)

Your first question is from the line of Matt Henry from Goldman Sachs. Please ask your question.

Matt Henry - ***Goldman Sachs - Analyst***

Morning, guys. I've got three questions if you don't mind. The first is just on the regulatory process. You refer to, I guess, an uplift in multipliers for rocky ground, et cetera. Have you got, I guess, a feel or a better feel now if the current RAB methodology was used what that would mean in terms of an uplift against your current published RAB? That's my first question.

The second question is just on the gas wholesale. I was just wondering whether you could comment around whether you think the first half is, I guess, a run rate type expectation for the second half and also going into next year.

The third question I have is just on the technology business. Looking at the numbers, EBITDA is up on 2007 by about somewhere between NZD10 million and NZD12 million, but over that timeframe you've spent something in the order of NZD170 million on growth CapEx. So I just really want to get a feel whether, one, you think that the money you're spending in that area is going to deliver earnings growth in the future or whether actually defining it as growth CapEx is reasonable.

Thanks. Those are my three questions.

Simon Mackenzie - ***Vector - Group CEO***

Hi, Matt. With regards to your query on the multipliers impact, we don't have that exact number to hand but when we have that available we'll let you know. But, as we've seen historically, and there's a combination of what's going on with regard to those costs from the market and the fact that we can add them in and order of magnitude, you're probably talking in the lower percentages, not double digit.

I'll let Alex answer that question on gas wholesale.

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

Thanks, Simon. I guess in terms of run rate in terms of where we are anticipating the full year to be, I would comment that we're comfortable with where the analysts' result is for that segment at this stage. So that would imply perhaps not (inaudible).

Matt Henry - ***Goldman Sachs - Analyst***

Sorry, I can't hear you. I don't think we can hear you.

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

Sorry, I'll say that again. We're comfortable with where analyst consensus sits for EBITDA for the gas wholesale segment for the full year, so that would imply slightly less run rate for the second half.

Matt Henry - ***Goldman Sachs - Analyst***

Thanks.

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

Did you pick that up, Matt, okay?

Matt Henry - ***Goldman Sachs - Analyst***

Yeah, I did, thank you.

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

With regard to technology and metering, the short answer is yes we are comfortable with the investment in the metering business. We see that delivering strong EBITDA performance. Obviously we have to build up quite a lot of stock to actually achieve 12,000 meters per month and that's now converting into good EBITDA and cash flow performance.

Matt Henry - ***Goldman Sachs - Analyst***

Okay, I guess the question is yeah you've spent NZD170 million in CapEx to deliver probably today something in the order of NZD10 million to NZD12 million of EBITDA. I mean I don't imagine that's deemed an acceptable return. I guess the question is are we going to see, I guess, either a kick up in the future as that CapEx starts to deliver or is there a big chunk of that growth CapEx, or what's been defined as growth CapEx, which is probably replacement of existing stock?

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

I think the issue is that what you're seeing is just the timing differences primarily between basically deploying, taking a significant step up in getting the meters out in the field and a lag of that coming through in EBITDA. But we certainly remain very comfortable with this being a strong solid investment and, secondly, that this is obviously CapEx that is new investment.

Matt Henry - ***Goldman Sachs - Analyst***

Okay, thanks very much.

Operator

The next question comes from the line of Grant Swanepoel from Deutsche Bank. Please ask your question.

Grant Swanepoel - ***Deutsche Bank - Analyst***

Morning. Thank you. I just want to elaborate a bit on one of Matt's questions on the wholesale side. Can you give some sort of idea of what tolling is delivering in terms of EBITDA, particularly as it is a new business, and whether this is a normalized type of number based on the shortage of gas on the one island and length of the other island?

Second question is on pricing. Can you just fill us in or bring us up to date on the pricing being put through the (inaudible) on the electricity and gas regulated business?

The final question on the head office costs. What would the normalized costs have been if you hadn't have put the incentives into the other segments and an extension of that, what is the fiber opportunity costing at this stage? Thanks.

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

Within the EBITDA for the gas wholesale segment, the reference to the tolling is reference to Liquigas. That is a small component of the result, so I wouldn't say it's any more than a quarter of that. It is now at what I would say steady state. Whether or not it moves significantly around depending on North Island/South Island split on gas, we don't see that materially impacting certainly the result going forward for the rest of the financial year.

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

Grant, to your question on pricing, the pricing changes in electricity are 2.6% effective from 1 April and that basically comprises of 1.2% that relates to our Vector price increases due to inflation under the regulatory price path and the other 1.4% relates to increases put through by Transpower through transmission charges as well as central and local government costs, which these are of course being pass-throughs.

Grant Swanepoel - ***Deutsche Bank - Analyst***

Thanks.

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

Sorry, that was electricity and with respect to the gas side, the transmission distribution, they will be at the CPI that's applicable where you typically put through those in October.

Grant Swanepoel - ***Deutsche Bank - Analyst***

Thank you.

Simon Mackenzie - ***Vector - Group CEO***

The third question was in relation to head office shared services costs and the impact within that of the transfer out. I think the short answer is the majority of that movement is related.

Grant Swanepoel - ***Deutsche Bank - Analyst***

You broke up again. We didn't hear that.

Simon Mackenzie - ***Vector - Group CEO***

Sorry, Grant. With your third question on shared services head office costs and the component of the 2.2 reduction as to what that was in terms of the transfer out of the incentives, I think it's the majority of that number.

Grant Swanepoel - ***Deutsche Bank - Analyst***

Thanks, and the final part was on the fiber cost to date and whether that's picking up or going down and what it is.

Simon Mackenzie - ***Vector - Group CEO***

I guess it would be fair to say that we expect there could be a slight increase just due to obviously legal advice on the next stage of the process, but that's offset by, pretty much since December, for the last couple of months we've had very low expenditure, so we're not expecting any material change in that space.

Grant Swanepoel - ***Deutsche Bank - Analyst***

Thanks very much, Simon.

Operator

The next question comes from the line of Andrew Harvey-Green of Forsyth Barr. Please ask your question.

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

Morning, guys. Good result and good presentation as well. A couple of quick questions, a little bit more on the gas wholesaling side. First of all, are you able to give us just an idea on sort of where you see natural gas volumes going over the next two to three years and, secondly, just on Kapuni pricing, when do you expect new Kapuni pricing to come through, i.e. I guess when do you get over that sort of legacy gas contract volume?

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

On the first one, with respect to. I think you're asking about the volumes, Andrew, is that correct?

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

Yeah, that's right. On the natural gas side, yep.

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

I guess looking forward for the next two to three years, obviously stating the obvious this is highly competitive and our position remains that we have firstly, as we said, some of the actions taken over the last couple of years has been relooking at our sell portfolio as well as our buy side. Obviously we're winding off those legacy contracts so looking forward we're confident that we can retain volumes around the same level, but obviously that can change month on month just given competition in the market.

I guess the actions taken, the access that we have to other supplies has seen us successfully maintain a lot of our existing customers and also pick up some from other customers but also recognizing we've lost a few on the way through. But, on balance, we remain in a relatively strong position looking forward.

Sorry, your second question was with respect to?

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

When the Kapuni repricing, the pricing of that contract.

Simon Mackenzie - ***Vector - Group CEO***

Essentially that's. Are you talking to the potential extra eight petajoules out of the 1010 number?

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

Yeah, that's right.

Simon Mackenzie - ***Vector - Group CEO***

Look, the short answer to that is we couldn't give a date on that given the kind of complex issues that are incorporated into Kapuni. What do they kind of comprise of? They comprise of, whilst the KMC may be actually advocating 1018PJs, as you will recall through our process of looking at the field reserves we believe there'd be significantly more than 1018 and they have to be basically proven and economic and that's what we believe they are.

The next stage of it is also how does emissions trading costs get factored into the pricing positions and so those, coupled with what our legacy kind of position is, is really a very complex issue to work through with the KMCs but something that we are very focused on and pushing forward as fast as we can.

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

Okay, and just had one other question just around the regulatory costs that you are incurring. I mean you're expecting, I mean obviously you're going to have fairly significant costs going ahead with merits review. Are those costs sort of going up or down or roughly what are we talking about?

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

We have factored into our budgets this year costs for regulation and those costs for regulation, at this point in time, we sit comfortable with. We're not expecting, at this point, for those to materially lift.

I guess the only thing that we could say against that, Andrew, is that because we do not know the process timing for the merits appeal process there's a degree of uncertainty about whether that would shift into this year or into next year. Additional costs, primarily just because of obviously legal advice costs, we have, in our view, principally got all the economic and legal advice has already been structured in our submission process so, from a legal costs perspective, this is really around putting the appeal together that leverages off that information already contained in our submission.

So yeah, I wouldn't expect that we'd see any significant or material increase in those regulatory costs and, hence, no change from that perspective to where we see our forecast coming out for the end of this financial year.

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

Okay, thank you.

Operator

The next question comes from the line of Stephen Hudson from Macquarie. Please ask your question.

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

Good morning, guys. I just had a question on your payout target and whether or not you saw any potential for that to lift or change, particularly as the regulatory regime sort of solidifies, and just a question around the CPI minus X pricing methodology that you follow. I think in the past you used to build in something like a 25Â basis point buffer as an allowance for potentially overstating pass throughs. I just wondered whether or not that was still included in your pricing regime.

Simon Mackenzie - ***Vector - Group CEO***

Hi, Stephen. With respect to the regulatory regime and the potential for a dividend lift, I guess that's kind of self-evident in itself that if we get what we believe to be an appropriate merits appeal outcome which incorporates not only issues around the weighted average cost to capital but also valuation, then we would expect to see that potentially flow through to dividend increase.

Now I think that arises principally because we have much greater certainty, our cost of funding will likely potentially fall. Over what time period it's difficult to say, but definitely we'd think that that should arise pretty much as what we've seen in other jurisdictions.

With regard to the CPI buffer, we're using that kind of 25 basis point buffer because of where we sit now when you take the cumulative effect of that buffer we haven't put a buffer into this year's price increase because we've got headroom from the compliance perspective given the cumulative effect of the previous buffers.

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

Okay, that's excellent. Thanks, Simon.

Operator

There are no further questions from lines. Back to you.

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

Okay, so if there are no further questions obviously we'll end the teleconference. Thank you all for your attendance. So analysts and investors, please direct any follow up questions to Anna Hirst and if there are any journalists online then, as normal, please liaise directly with Philippa White.

So thank you very much for joining us and we look forward to discussing our end of year results in August. So good afternoon.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

DISCLAIMER