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VCT.NZ - Interim 2013 VECTOR LTD Earnings Presentation

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PRESENTATION

Michael Stiassny - *Vector Limited - Chairman & Independent Director*

Good morning everyone and welcome to Vector's Interim Market Briefing for the 6 months ended 31 December 2012. I'm Michael Stiassny and joining me on this webcast and teleconference is our Group Chief Executive Simon Mackenzie and our acting Chief Financial Officer Shane Sampson.

Today's presentation will follow the usual format; Simon will begin by giving a quick overview of the highlights followed by Shane taking a closer look at the financials. Simon will then discuss the operating performance of our segments and conclude with an update on the full year outlook. Once the formal part of the presentation is over it will be time for questions.

Before I hand over to Simon let me quickly discuss the interim dividend. The Board has declared an interim dividend of NZD0.0725 per share up NZD0.0025 on last year. The dividend has a record date of 25 March and a payment date of 15 April. The Board will make a decision about the full year dividend in August, in line with our dividend policy which targets a payout ratio of 60% of operating cash flow less replacement capital expenditure on average over time. Last year's payout ratio was 53%. Now it's time to hand over to Simon for a walkthrough the result highlights.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Michael and good morning everyone. If you've seen the interim announcement, you'll be aware that Vector has again turned in good financial performance despite the challenges of what we are calling the new economic norm. Economic growth is soft; our customers want to reduce the amount they spend on energy and the amount they consume. Meanwhile, the environment for value-enhancing acquisitions is challenging. As a provider of critical national infrastructure, Vector's progress is tightly linked to these economic trends. Warmer temperatures across the Auckland region also reduce demand.

However, this result demonstrates how we have continued to grow in spite of the new economic environment. It also shows our success at containing costs, optimising the Group's portfolio of businesses, and lowering our risk profile in response to this new environment.

Earnings in our electricity and gas transportation networks increased. Our unregulated operations continue to perform well. Our technology business grew earnings. The performance of our gas wholesale business was underpinned by the continuation of supply of Kapuni gas at legacy prices following success and an arbitration to determine our entitlements. This is now subject to an appeal, but we are confident of our position.

Our balance sheet remains strong; our gas wholesale book is well balanced. We continue to see regulatory certainty and we are looking forward to the outcome of the Merits Review of the regulatory regime later this year. But despite the challenges, our planned acquisition of the Contact Gas metering business shows we continue to prudently invest for growth.

At the same time, we have delivered as a provider of critical national infrastructure to our customers and the Auckland and national economies. I will discuss this in more detail shortly, but Vector remains among the lowest cost energy infrastructure providers in the country whilst still more than meeting our assurances on service quality. For the six months to 31 December we saw increases in all of our key financial metrics. Revenue increased 5% to NZD669.4 million.

EBITDA increased 3.9% NZD336.3 million, while operating cash flow increased a pleasing 10.4% to NZD267.7 million. Profit increased 10.8% to NZD118 million. The strong financial performance underpins significant capital expenditure on our networks to maintain service quality, reliability, and network expansion.

Capital expenditure for the first half was NZD128.8 million, up 15.4% on the prior comparative period. Of this, nearly 60% was spent on growth projects such as metering in networks and the balance on replacement of assets.

Vector is more than a provider of critical national infrastructure. Our shareholders have, again, benefitted from the Group's portfolio of operations-- delivering on our core energy infrastructure networks, developing innovative technology solutions, and pursuing smart growth opportunities in our unregulated operations. The technology businesses and gas wholesale operations continue to provide a solid contribution. Representing 12% of total segment assets, they generate 36% of revenue and 20% of segment EBITDA. In short, they enhance returns to shareholders and provide a solid buffer against the vagaries of the current regulatory regime. So I'll now hand over to Shane who'll take you through the detail of our financial results.

Shane Sampson - *Vector Limited - Acting CFO*

Thank you Simon and good morning everyone. Let's start by looking at the income statement. Revenue for the six months to 31 December 2012 increased 5% to NZD669.4 million. Revenue was lifted by regulated price increases as well as an increase in Transpower transmission charges. Warmer weather than last year, combined with the soft economic environment and subdued customer demand continues to weigh on our electricity volumes. That said, we are seeing some encouraging signs of growth in the Auckland market in the form of increasing residential and commercial construction activity.

Group EBITDA rose 3.9% to NZD336.3 million and net profit rose 10.8% to NZD118 million. Both figures reflected a continued focus on costs across our businesses, with any increases in costs largely aligned with growth in revenue. Depreciation and amortisation was steady on the previous year, while financing costs fell due primarily to a reduction in interest paid on the capital bonds. Results from associates were a loss of NZD1.6 million due to a fall in the market value of our 22% stake in New Zealand Windfarms. Tax expense increased due to the profit improvement.

Let's now look more closely at electricity. Revenue was up 8.5% to NZD334.8 million. The increase in Transpower charges lifted expenses by NZD19 million. These charges are passed through to customers. Underlying trading conditions in electricity remain soft; volume across the network fell, while the soft economy continues to constrain customer growth and volume growth. We are however seeing a step up in residential and commercial construction activity. This increase has been sustained since the end of last year and supports anecdotal evidence of a slight recovery in the sector.

EBITDA rose 2.2% to NZD202 million due to revenue growth and tight control of costs. In the period, we invested NZD61.4 million to maintain our high levels of service and to manage continued growth in customer numbers. Capital expenditure for growth represented 45.4% of the total, increased mainly due to the ongoing upgrade of the substation at the new Transpower grid exit point on Hobson Street in the centre of Auckland. We also invested to support the increase in residential subdivision activity.

Similar trends were evident in gas transportation. Revenue rose 3.6% to NZD114.4 million. Again, EBITDA margins correspondingly improved thanks to tight cost control. Replacement capital expenditure was unchanged on the prior year, but capital expenditure for growth was up 12% to NZD5.6 million mainly due to higher residential connection activity.

In gas wholesale revenue increased 0.1% despite lower production from the Kapuni gas field. Sales, excluding recoveries associated with the emissions trading scheme, were lifted by growth at the bottle swap business and a 20% increase in tolling volumes through Liquigas. EBITDA fell 6.6% to NZD34 million. The continued supply of Kapuni gas at legacy prices underpins the result. Reinforcing our reputation as the country's leading gas intermediary, costs were contained and the gas book remains well balanced. Costs fell at KGTP and add our natural gas operations in line with lower production volumes. However these gains were offset by increased expenditure at Liquigas and the bottle swap operations to support increased volumes.

Unregulated technology businesses continue to grow strongly. Revenue rose 9.8% to NZD52.8 million, reflecting growth in both our metering and communication businesses. The metering business continues to benefit from smart meters replacing legacy meters, as well as additional recoveries from retailers for [field] services. Metering costs increased in line with the increase in the number of smart meters. Capital expenditure rose 44.2% to NZD43.7 million largely reflecting the smart meter deployment. In shared services, EBITDA losses decreased by 5.6% to NZD25.4 million due to continued tight cost management.

Moving to the cash flow statement. Operating cash flow rose to NZD267.7 million, we repaid NZD22.8 million of debt and the net increase in cash was NZD45.8 million. Our balance sheet remains strong; gearing has fallen from 52.5% to 51% and EBIT covers our net interest expense three times. I will now hand back to Simon to talk about Vector's operating performance.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Shane. The electricity business continues to perform well; electricity customers grew 0.6% to 537,268. Net customer additions grew 20.1% to 2040. Over the last few years these connections have been unusually high as inactive meters were disconnected. This had the effect of depressing the number of reported net connections growth that the market is now returning to equilibrium. The volume of electricity transported across the network fell 0.9% to 4321 gigawatt hours, reflecting the unusually warm weather in the second quarter of this year, and the unusually cool weather in the first quarter of the prior year, and subdued customer demand.

Although household consumption has largely weathered the pendant, we have observed a reduction in average consumption per household over the last few years. Our research shows the majority of customers are trying to reduce their usage, reflecting their desire to reduce their electricity bills and take advantage of more energy-efficient and environmentally-friendly solutions. It is for this reason we have been innovating and investing technologies such as solar.

Meanwhile, commercial and industrial customers have also continued to slow their production and actively look to cut costs. Vector is actively participating in the Electricity Authority's consultation to revise Transpower's transmission pricing methodology. We are challenging the proposed methodology on the grounds it is likely to result in higher prices for Auckland consumers and of course the result of negative economic impacts. This review is the third review by the Authority and its predecessor the Electricity Commission, in recent years. These reviews have focussed on shifting costs, such as those for the HVDC, or the Cook Straight cable from South Island generators to North Island consumers.

As Shane has mentioned, EBITDA increased as we kept a lid on costs. This increase in earnings has not come at the expense of our commitments to our customers and Vector is one of the lowest cost providers of energy infrastructure. On our electricity networks for instance, measures such as average network charge and the average operating cost per customer, show Vector's electricity networks are among the best performers in the country. Our network reliability metric -- otherwise known as [sadie] -- increased 4.2% from 69.4 minutes to 72.3 minutes.

But we consider the increase was due entirely to the natural random variance from year-to-year. We are also starting to see pickup in residential construction activity and the level of activity enquiry remains strong. This bodes well for the remainder of the year. Longer term, we're very excited about the applications of solar power in our electricity business. Solar panels -- however more importantly -- being combined with highly efficient and smart control technology will allow our customers to manage demand and the cost of energy in the home.

In the period, we completed the first residential installation of a technology solution, which over the long-term will lead to greater use of renewable resources but also help us to optimise our network investment. It is important to note that this solution provides choice for customers, a trend we see continuing.

Turning to gas transportation, distribution volumes were unchanged on the prior year at 11.7 petajoules whilst gas transmission volumes fell from 65 petajoules to 58.8 petajoules. Due primarily to slowdown in gas fired electricity production. As the customers' concerns were largely on fixed charges, independent of the volume of gas consumed, the lower volumes had little effect on revenue.

Distribution customers rose 1.5% to 155,863 and net customer additions rose 13.7% to 1214. The increase was due to lower disconnections as a major retailer's program of decommissioning unused gas ICPs drew to a close. Again, we are optimistic about a rise in gas connections due to increasing residential construction activity. In summary, our regulated assets continue to generate growth primarily from network expansion. Clearly those are the characteristics of these regulated assets. As previously noted, this is closely linked to economic activity, particularly in Auckland.

In gas wholesale, the result from our gas wholesale division reflect lower volumes from the Kapuni field. Natural gas sales fell 2.8% to 13.9 petajoules, meanwhile gas liquids were down 6.8% to 39,000 tonnes. Factors offsetting the effect of lower production were growth in the LPG business, particularly the bottle swap operation where our retail footprint grew by 38 outlets to 708 nationwide. Bottle swap rates are up 29% and we're running at 45,000 bottles per month in December, compared to just over 30,000 a year ago. It's clear swapping bottles, against filling at each visit, continues to resonate with customers and demonstrates the benefit of our strategy to acquire Quick Swap in 2011.

Liquigas is benefitting from growth in the South Island bulk market, recovery in Christchurch following the earthquakes, a reduction in the amount of LPG shipped by road, bypassing the Liquigas distribution facilities, and an increase in exports. Tolling volumes are up 20% to 73,369 tonnes through Liquigas facilities. More importantly, our gas wholesale book remains well balanced and we retain our position as the country's leading gas intermediary.

For technology, the installed base of smart meters continues to grow, rising 38.5% to 438,419 meters up from 316,531 at the same time last year. Vector is now two-thirds through its contracted installation of 670,000 smart meters and we've deployed at an average of 11,500 meters per month. The team have been putting in a great effort and in November achieved their best ever month, installing more than 16,000 meters.

We expect to maintain a rate of between 10,000 and 12,000 a month, depending on installation conditions for the next 12 months. The new meters offer a number of great opportunities to extend and grow our metering business further, including the ability to sell data management services and extending metering opportunities into such uses as gas and water.

But we await the Commission's decision on our proposed acquisition of Contact Energy's gas metering business. The acquisition is designed to take advantage of our industry-leading expertise in the technology and would add a further 128,000 gas meters to our portfolio.

With respect to regulation, the half year has been marked by some important regulatory outcomes and court hearings, all of which have amounted to significant steps towards our ultimate aim of achieving regulatory certainty. This is of utmost important for the Auckland region and the broader national economy. We are looking forward to the outcome of the Merit Review process of the regulatory regime, fought by Vector along with six other parties representing the interests of New Zealand's largest infrastructure providers.

Deliberations are drawing to a close and we expect a court judgement to be delivered in the second quarter of this calendar year. It's still too early to speculate on the outcome of these court proceedings for Vector.

But from April this year, Vector will reduce its electricity lines charges in line with the Commerce Commission's determination released last November, forecasting an average 10% reduction for electricity lines charges.

A price determination for our gas transmission distribution assets is due to be released later this month, in light of the pending Merits Review judgement however, it is too soon to say whether the Commerce Commission's draft decision to reduce prices on our gas transmission and gas distribution networks by 25% and 16% respectively will stand.

We note that these reductions are based, however, on different assumptions. Primarily lower ones from the Commission in respect of operating and capital expenditure requirements over the next five years than those that Vector believes are required.

Vector has made a good start to the 2013 financial year as we have managed the business well in the face of the new economic norm of soft economic growth and subdued energy demand. For our business in the portfolio we continue to seek value enhancing acquisitions.

We've been working with local and central government as well as organisations in the private sector to explore opportunities to manage and invest in critical national infrastructure and adjacent services by leveraging Vector's expertise and strong balance sheet.

The second half, however, will present some headwinds. The Regulator's mandated price reductions on electricity networks from 1 April will weigh on second hand revenues, even if we receive a positive outcome from the Merits Review of the regulatory regime. As any adjustment in our favour would unlikely apply in the period.

Notwithstanding the signs of recovery, the Auckland Building and Construction sector the economy remains soft and customer demand remains subdued. Meanwhile our gas entitlements to Kapuni gas at the legacy prices will continue to reduce over the period. And some gas already purchased during the period at legacy prices is subject to appeal.

We are very pleased with growth in our technology businesses. The gas wholesale operation continues to perform well and we continue to manage costs tightly. We also continue through investment in our core network business as the economy grows albeit slowly.

In summary we are reaffirming our earlier guidance that we expect EBITDA for the full year to 30 June 2013 to be in line with the result we achieved in the year to 30 June 2012. Again I'd like to thank the staff and Board for all the effort and input we've had over the last six months, it is much appreciated.

That's the end of today's presentation, I'm now going to hand over to the moderator for any questions. And please follow their instructions.

QUESTIONS AND ANSWERS

TRANSCRIPT

Editor

(Operator Instructions)

Operator

Our first question comes from Matt Henry with Goldman Sachs. Please go ahead.

Matt Henry *- Goldman Sachs & Co - Analyst*

Morning guys. I had about three quick questions if I may. Just firstly wondering if you could elaborate on that statement you continue to seek value enhancing acquisitions. I guess just interested in just sort of defining the scope of the type of, you know, acquisitions you would look at and I guess the quantum as well.

The second question you know was just around the wholesale gas. I just wondered what your full year guidance implied for the second half for that business. I guess on my numbers which I would suggest you know quite a significant pull back in the second half for that business earnings. And thirdly I was just interested in your sort of comments around Excited About Solar. I just wondered if you could provide any additional colour on sort of where you are on those sort of initiatives and timeframes associated with those.

Simon Mackenzie - *Vector Limited - CEO*

Okay, with respect to obviously looking at value enhancing acquisitions. Activity in that space clearly is with -- undertaken with Contact we're keen on looking at metering opportunities, not only in electricity but also gas and potentially into other sectors. And that may also extend outside of New Zealand if the opportunity arose. With respect to other infrastructure it would be fair to say that you know obviously if there is other assets that fit with our core business such as electricity networks or gas networks, we would obviously explore those but the reality is that in New Zealand at the moment that's not very likely.

With regards to other acquisitions, we also see the opportunity in other technology that supplements our technology businesses, whether that's metering or data related services.

I'll let Shane just talk to the gas question you had Matt.

Shane Sampson - *Vector Limited - Acting CFO*

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

Simon Mackenzie - *Vector Limited - CEO*

And lastly I think your question was with respect to solar. I think the most important point there is we see distribution networks are -- for want of a better word -- the essential asset and the infrastructure space that facilitates obviously our customers' choice. And when you look at that it's kind of more the embedded choice. Because energy still needs to move around within cities and between customers.

Our solution I think we have to move away from the kind of paradigm of a solar panel on the roof. It is much more orientated around making the solar solution a 24 by seven option as opposed to a sunshine hours option because it's heavily integrated with battery storage and also control technology which is right at the forefront of managing inputs into the distribution network. Whether they come from solar solutions, electric vehicles or anything else.

So the solar development has two key parts to it. One it is a choice for customers and we started through what we would classify as a very soft launch with the new technology in December. We've had 350 enquiries already and we've -- as we mentioned we've already installed now two installations and we continue to actually qualify other parties that are interested. The early adopters I would say is the reality.

The other side of the solution clearly links with the ability to offset distribution network investment for a unregulated space with respect to a customer choice. And the business model or the way in which we have put the offering out into the market is a small upfront fee with a monthly payment and the assets remain owned by Vector.

Matt Henry - *Goldman Sachs & Co - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Grant Swanepoel with Deutsche Bank, please go ahead.

Grant Swanepoel - *Deutsche Bank AG - Analyst*

Good morning team. Yeah a quick question. I just want to follow on from Matt a little bit. At your AGM your guidance is unchanged from then and at that time we were well aware of the 10% cut in prices for the electricity business coming up in April. But since then you guys have won the Kapuni gas determination, re-determination and while that's up for challenge that should have added about eight to 16 million to your bottom line and you're keeping unchanged. So my question goes to what line item do you now think is going to be worse than what you were looking for at the AGM.

Also the meter business with Contact, where did you factor that in from? Contact's factoring it in from the end of the first quarter of this calendar year. Have you got a quarter of the extra boost from the meter business in your forecast as well? And finally you guys sound a bit more upbeat on the Merits Review than what you have in the past looking forward to the outcome of Merits Review. Is that unchanged expectation or is there something in the Merits Review itself that you've seen a development that's going in the right direction? That's it from me, thanks.

Simon Mackenzie - *Vector Limited - CEO*

Yeah, hi Grant. Firstly with respect to remaining guidance at a level I think we're probably just signalling that as everyone observes in Auckland that the weather's been exceptionally warm for the last, you know, kind of three months. Is still looking to continue so that does have a negative impact on the electricity business and gas business from throughput perspective. Particularly with regards to volume and [hints] that I would say largely offsets some of the benefit with respect to the legacy gas. It also relates to how quickly we want to take the legacy gas with respect to other gas in our portfolio.

I think your second question was with regards to the metering business acquisition with Contact. The reality is unfortunately it looks like the decision has been delayed by the Commerce Commission again with respect to the acquisition. I understand that's kind of been pushed out another four to five weeks. So we haven't taken that into account in this -- in the forecast. It basically therefore may not actually complete until around about mid-April.

And obviously that's extremely frustrating having had such a long delay in this acquisition and you know equally it's frustrating in the sense that we are looking to obviously grow the business. We see no barriers to entry for other parties that want to put a gas meter on their wall and we understand most of the retailers -- or all of the retailers -- are very supportive of the acquisition where it basically leverages the scale and scope that we have to the benefit of themselves and customers. So it's just a frustration of waiting for a decision.

I think your last question was with regards to anything that we've seen in the Merits appeal process. Is that correct Grant?

Grant Swanepoel - *Deutsche Bank AG - Analyst*

That's dead right Simon, thank you.

Simon Mackenzie - *Vector Limited - CEO*

Yeah, the -- I think you know obviously we can never speculate on what the court's decision will be but our view would be that there was some very positive I guess outcomes from our perspective. Or the court went in a positive way from our view I think the Merits appeal panel were very engaged and with respect to the arguments that we had and in particular arguments with respect to the asset valuation, particularly in electricity -- oh sorry, in electricity and in gas.

Obviously recognising the fundamental differences there. And then also some of the detail componentry with respect to the weighted average cost of capital around issues such as five versus 10 year reigns and beta values with respect to the international comparatives.

So we felt that there was a very strong engagement and certainly we didn't take anything pessimistic out of that but obviously there's a lot of complexity and where they arrive at a decision.

Grant Swanepoel - *Deutsche Bank AG - Analyst*

Thanks Simon that sounds extremely positive. Thank you very much.

Operator

Thank you. The next question comes from Andrew Harvey-Green with Forsyth Barr. Please go ahead.

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

Hi guys. Some of the questions around the legacy gas have been sort of answered. I guess one question I'd have just around I guess the gas decision coming up from the Commerce Commission next week -- or the final decision on that -- do you have any particular views on where that might be going relative to the draft decision that came up?

Simon Mackenzie - *Vector Limited - CEO*

I could say that -- could say that nothing surprises us -- but I would say that we wouldn't anticipate the change much given how things typically roll out. But we -- what I would make the point Andrew that our -- one of our big issues apart from the key inputs is the fact that the significant cuts that were put to our future forecast for CapEx and OpEx expenditure we can't reconcile with you know stated objectives by the Government around the need to invest in infrastructure. So we do think that that needs a really close look at it.

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

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

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Simon Mackenzie - *Vector Limited - CEO*

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

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

All right okay I think that yeah pretty much covers everything. The other questions have pretty much covered what I was after as well. Okay, thanks.

Operator

Thank you. Our next question comes from Greg Mayne with First NZ Capital, please go ahead.

Greg Mayne - *First NZ Capital Securities Limited - Analyst*

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

Simon Mackenzie - *Vector Limited - CEO*

So the Kapuni arbitration -- what we call the first phase of that has actually completed as we've identified. However the KMCs or Kapuni Mining Companies have basically appealed against the decision. And so that has to be basically determined from a timeframe with the courts.

Greg Mayne - *First NZ Capital Securities Limited - Analyst*

Okay so--

Simon Mackenzie - *Vector Limited - CEO*

There's no set date yet as I understand.

Greg Mayne - *First NZ Capital Securities Limited - Analyst*

Okay.

Simon Mackenzie - *Vector Limited - CEO*

They've only just recently appealed.

Greg Mayne - *First NZ Capital Securities Limited - Analyst*

Okay and then particularly, this one's for Shane. On your debt at the moment has there been any change in kind of how you've structured that with flexed business floating or anything and where are you sitting with regard to that flexed business floating at the moment.

Shane Sampson - *Vector Limited - Acting CFO*

We're reasonably consistent Greg with where we've been for the last few years. So in terms of the next year we've kind of set it about the 30% floating. No dramatic changes in that. Just the main thing we're looking at the areas subject to Merits, Review process. You know we may look at how we structure our particularly interest rate flexing to the line with regulatory periods and that kind of thing but in terms of today it's no major changes in that -- the structure of that portfolio.

Greg Mayne - *First NZ Capital Securities Limited - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Stephen Hudson Macquarie Group, please go ahead.

Stephen Hudson - *Macquarie Group Limited - Analyst*

Oh morning guys. Just a couple of quick questions. Firstly Shane I just wondered if you could give us a customer contribution numbers for gas and electricity for this half and the outlook for the second half.

I couldn't seem to find them in the presentation and apologies if I've missed those. And then secondly it's a question maybe for Simon. I understand the Commerce Commission are working on implementing or at least incorporating the [IRIS] efficiency incentive mechanism, that's available in the customised price path but into the default price path the second time around. I just wondered if you viewed that as being potentially significant for Vector going forward.

Simon Mackenzie - *Vector Limited - CEO*

Shane's just dragging out the--

Shane Sampson - *Vector Limited - Acting CFO*

All right, sorry about that slight pause there Stephen. In terms of capital contributions in electricity, the capital contributions in the half were 11.1 million which is up 1.2 million on the previous year and in gas transportation for the half they were 1.5 million which was up from 1.1 million the year before. So a good percentage growth but not dramatic in the overall result.

Stephen Hudson - *Macquarie Group Limited - Analyst*

And you'd expect sort of similar to the levels in the second half?

Shane Sampson - *Vector Limited - Acting CFO*

We've seen really high levels of enquiry from developers and there's definitely a lift in the level of acceptances so we'd certainly assume that that would continue.

Stephen Hudson - *Macquarie Group Limited - Analyst*

Okay, thanks.

Operator

Thank you.

(Operator instructions)

Simon Mackenzie - *Vector Limited - CEO*

Sorry, should have -- there was a second question from Stephen. Stephen are you--

Operator

My apologies, I'll recall him. Just one moment. Mr Hudson your line is now live again if you did have a second question.

Simon Mackenzie - *Vector Limited - CEO*

Well we're going to answer it.

Stephen Hudson - *Macquarie Group Limited - Analyst*

Oh hi, thanks Simon. Yeah, it was just around the IRIS mechanism. As I understand it it's not available to you in the default price path but it is in the CPP. And I just wondered if -- that sounded relatively materially if the Commerce Commission are planning on building it in in the next regulatory period.

Simon Mackenzie - *Vector Limited - CEO*

Yeah I think with regards to the customised price path, I think the first instance we'd have to say is that it's not something that we see as a beneficial kind of process to go down, certainly not the CPP. I mean the regulatory regime is meant to deliver results through the DPP process that are efficient and low cost and CPP I think would be unbelievably expensive and wouldn't necessarily end up in good outcomes.

The -- with regards to efficiency mechanisms and so forth. I think from our perspective the right design of them is obviously the key and in particular what I would expect to see is how organisations such as ourselves benefit from scale and scope and how that actually translates into sharing of those gains with customers. But equally we're -- gains have been made through providing customers with choice. I think there still remains a question around how -- what would actually be counted in any design as a efficiency measure or otherwise?

Stephen Hudson - *Macquarie Group Limited - Analyst*

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

Simon Mackenzie - *Vector Limited - CEO*

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

Stephen Hudson - *Macquarie Group Limited - Analyst*

Yeah, okay, thanks Simon.

Operator

Thank you. At this time we are showing no further questions.

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Simon Mackenzie - *Vector Limited - CEO*

Okay so if there are no further questions, we'll end the teleconference and web cast. So thanks very much for joining us today. If you have any questions may I ask media to contact Sandy Hodge and investors to contact Daniel Kieser? Thanks

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Shane Sampson - *Vector Limited - Acting CFO*

Thank you.

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