



## September 2013

Tylee+Co welcome you to another edition of its newsletter. In this edition we outline:

- Recent assignments we have completed;
- Related press releases; and
- Thoughts on the recent Public-Private Partnerships conference we attended.

### Recent Assignments

#### Corporate Finance Transactions



meridian

##### **Meridian Energy**

Tylee+Co acted as lead advisor to Meridian Energy on the **divestment** of its subsidiary Energy for Industry to Pioneer Generation.



##### **Netcon** (A subsidiary of Alpine Energy)

Advice on **acquisitions**.

#### Strategic & Financial Advisory Services



Ministry of **Transport**  
TE MANATŪ WAKA

##### **Ministry of Transport**

Commercial adviser for Clifford Bay Investigation Project.



##### **Energy Market Services** (A division of Transpower)

Independent review of **business case** for a Gas Spot Market in New Zealand.

Tylee+Co also:

- Assisted a fast growing export orientated technology company raise equity capital from a high net worth individual; and
- Provided an established company advice on ownership and governance options, including on advisory boards.

## Energy for Industry Divestment

As outlined above, Tylee+Co acted as lead advisor to Meridian Energy on the divestment of its subsidiary, Energy for Industry, to South Island based Pioneer Generation. The press release outlined below provides more background on this transaction.

### Meridian Energy sells Energy for Industry subsidiary business

20 December 2012, press release

Meridian Energy has sold its subsidiary Energy for Industry Limited (EFI) to South Island-based Pioneer Generation Limited. The sale, completed 20 December, meets the strategic needs of both companies.

The sale advances Meridian's plan to divest its non-core subsidiaries.

Meridian Energy Chief Executive, Mark Binns, said, "EFI is New Zealand's leading provider of energy solutions for some of the country's key sectors. It has found the right new owner that will take this business to the next level."

The scale and diversity of EFI's process heat and biomass infrastructure complements and fits well with operations of new owner Pioneer Generation.

Pioneer Generation Chief Executive, Fraser Jonker, said, "The purchase of EFI is a significant growth and diversification investment for Pioneer. The EFI business has a market-leading position in the process heat and biofuel markets with strong opportunities for future growth."

Meridian's Mark Binns added, "We thank the employees and management of EFI for the value they have contributed as a subsidiary of Meridian and wish them well for future growth under Pioneer".

The transaction is valued at more than \$50 million.

## Clifford Bay Investigation Project

Dougal Tylee, Tylee+Co's principal, is a core member of the Ministry of Transport's project team working on the next stage of the investigation of Clifford Bay as a South Island ferry terminal. In his role as Commercial Adviser, Dougal is assisting determine the commercial viability of Clifford Bay as a ferry terminal compared to the status quo. This has involved operating at a variety of levels including detailed financial analysis and modeling of user net benefits and commercial discussions with ferry operators.

The press release by Minister of Transport Gerry Brownlee outlined below provides more background on this project.

### Press Release: Next Step for Clifford Bay Ferry Terminal

1 November 2012, press release

The Government wants to further test the viability of a ferry terminal at Clifford Bay in Marlborough, Transport Minister Gerry Brownlee has announced.

"Cabinet believes the business case we've been presented is strong enough to justify further testing the viability of this major change to New Zealand's transport infrastructure," Mr Brownlee says.

"I have asked the Ministry of Transport, along with the Treasury and the NZ Transport Agency to assemble a specialist project team to undertake this work.

"This group of officials and private sector experts will continue working through the complexities that are part and parcel of the business case and report back to the Government by the end of April next year.

"I expect that assumptions in the business case will be rigorously tested with key stakeholders."

The Government is looking at the road and rail link between the North and South Islands from a national transport perspective and is interested in the long-term advantages that could be realised from having the ferry terminal at Clifford Bay rather than Picton.

Investigating a new ferry terminal at Clifford Bay is part of the Government's wider infrastructure programme, which is set out in the Building Infrastructure progress report released today.

Mr Brownlee says the business case presented to Cabinet includes an analysis of the financial, economic, operational, and commercial viability of a ferry terminal at Clifford Bay versus the status quo.

"Much of the information in the business case is commercially sensitive and will affect ongoing discussions.

"I acknowledge the impact this process is having on a number of businesses in Marlborough but a lot of complex issues need to be worked through before a decision is made.

"I have discussed today's news with some key stakeholders, including the Marlborough District Council, Port Marlborough, Strait Shipping, CentrePort, and KiwiRail's Interislander to inform them of our decision to proceed to the next stage.

"They understand that this decision could potentially rewrite the transport map for the country, and that the Government is prepared to take the time required to make the right decision for New Zealand."

A move to Clifford Bay could facilitate the use of larger cross-strait ships; reduce the journey time between Wellington and Christchurch by 80 minutes by ferry/road and 110 minutes by ferry/rail.

Other potential benefits include reduced fuel costs for road and rail transportation, rail and ferry maintenance cost savings, and reduced carbon emissions. Based on current estimates developing a ferry terminal at Clifford Bay would cost around \$422 million.

## New Zealand Gas Spot Market

Tylee+Co provided an independent review of EMS's business case for a Gas Spot Market in New Zealand. This new market was launched on 1 August 2013. A press release by Transpower outlined below provides more background on this launch.

### New Gas Market to Launch on 1 August

7 June 2013, press release

Transpower's Energy Market Services today announced that its new energy exchange, emTrade, will be launched on 1 August 2013 and be available for live trading 1 September 2013.

The first product to be made available for trade is a natural gas spot product that is sponsored by three major gas industry participants. These sponsors include OMV, Vector and Methanex.

The sponsors are working closely with Transpower to ensure the market and product design is fit-for-purpose, and is suited to providing a sustainable and long-lasting industry solution. Importantly, liquidity and price will be supported by two contracted market makers that will stand in the market from day one.

Transpower's General Manager System Operations Kieran Devine said that one of the most important aspects for Transpower in developing and launching a new gas spot product for New Zealand was that it was designed by the industry, for the industry.

"We have been working closely with those involved in the gas industry over the last eight months to ensure that what we designed was going to be successful and well supported by those participating. We've had a very positive reaction from the industry so far.

"The initial objective of emTrade is to provide a highly liquid, transparent and widely accessible trading hub for natural gas. The market will operate 7 days a week for both Day-Ahead and On-The-Day delivery, and will be cleared by a central counterparty protecting participants from risk – both physical and financial," he said.

Prospective participants can expect the emTrade rules and agreements to be available for review 1 July 2013, and the trading platform will be available for testing and system integration on 1 August 2013.

Mr Devine said that a well-developed gas spot market will be of significant value to the New Zealand energy industry and the country as a whole.

"It will add flexibility to the market and allow participants to better manage their gas requirements in a market that is currently dominated by long-term and relatively inflexible supply agreements."

"We would like to thank those gas industry stakeholders who have given us valuable insights into the current market environment and who have helped us to develop what we are confident will be a successful market development for New Zealand. We look forward to working with our sponsors and the wider gas industry in the lead up to the launch on 1 August" he said.

## Public-Private Partnerships Conference

Dougal Tylee, Tylee+Co's principal recently attended the Public-Private Partnerships: Building Infrastructure for the Future conference in Wellington. This conference was hosted by The New Zealand Institute for the Study of Competition and Regulation (ISCR) and sponsored by NZ Transport Agency (NZTA).

The conference had an interesting array of speakers and sessions. The opening speech was provided by The Honourable Bill English (Deputy Prime Minister), and the keynote speaker was Professor Ronald Fisher from the University of Chile. Other speakers / panel members were from ISCR, NZTA, University of Queensland, Webb Henderson, Aurecon Group, University of Auckland, KPMG, NZ Treasury and Ernst & Young.

Sessions covered were Public-Private Partnerships (PPPs):

- For physical infrastructure - transport and ultrafast broadband;
- For soft infrastructure - primary health care and human capital;
- Governance and legal issues;
- Tendering and financial issues.

Tylee+Co noted the following points from this conference:

- There are differing definitions of what a PPP is. One is *“long-term contracts for the delivery of a service, where the provision of the service requires the construction of a facility or asset, or the enhancement of an existing facility”*. Another broader definition is *“any mutually beneficial commercial procurement relationship between public and private sector parties that involves a collaborative approach to achieving a public sector outcome”*;
- PPPs can apply to both hard (i.e. physical assets such as roads) and soft (i.e. services such as health) infrastructure;
- PPPs are useful mechanisms to allocate operational and financial risks (and returns) to parties who are best placed to manage and mitigate those risks;
- A key benefit of PPP's is the knowledge transfer that occurs from the private to the public sector, including how to manage capital more efficiently;
- PPPs are also beneficial as they enable a long-term perspective to be taken for long-lived assets;
- However, not all projects are suitable for PPPs - those best suited are large scale, complex and risky projects where there is opportunity for innovation. On this basis, PPPs are only likely to be used for a minority of infrastructure delivery in New Zealand;
- PPPs should be viewed as just another type of procurement, and should be considered along-side other procurement approaches;
- The public sector should consider PPPs if the same or better outcomes at the same or lower cost can be achieved compared to other procurement methods (known as 'Better Value for Money');
- PPPs will not work if outcomes can't be measured, and private sector partners can't be incentivised to deliver those outcomes;
- New Zealand is at an early stage of development with PPPs compared to overseas where they have been around for around 15 to 20 years (for example, in the United Kingdom Private Finance Initiatives (PFIs) began in 1992 and around 700 were completed by 2007 - PFIs are a way of creating PPPs);
- New Zealand's early stage of PPP development is beneficial from the perspective that we can learn from mistakes made with PPPs overseas. For example, allocating demand risk to private sector partners has meant a number of PPPs have failed such as the Sydney Harbour Tunnel project;
- Renegotiation of PPP contracts is common to correct design errors and to adapt to changed conditions;
- Two recognised PPPs recently completed in New Zealand are Hobsonville Point schools (completed in April 2012 - a partnership between the Ministry of Education and Learning Infrastructure Partners consortium - the 25 year contract is worth \$111m in net present value terms) and Wiri, South Auckland prison (completed in September 2012 - a partnership between Department of Corrections and SecureFuture consortium – the 25 year contract is worth \$840m);
- The Government's Ultrafast Broadband Network (UFB) initiative could be described as a 'reverse PPP', where the Government initially owns the PPP entity, takes risk and provides seed capital to private sector partners to build the network, and then eventually sells out to private sector partners. This contrasts to other PPPs where the Government usually becomes the eventual owner of the assets after say a 25 year concession period;
- Transmission Gully, a proposed new 27km motorway north of Wellington, is a significant PPP currently being tendered by NZTA;
- There is significant opportunity to apply PPPs in the delivery of Government services.



## Best Wishes

On behalf of Tylee+Co, I wish you all the best for the remainder of 2013. In the meantime, we look forward to hearing from you with your corporate finance queries and assisting your business achieve its objectives.

**Dougal Tylee**  
Director

### **Tylee+Co provide investment banking and corporate advisory services**

<b>Strategic &amp; Financial Advisory Services</b>	<ul style="list-style-type: none"><li>• Advisory board services</li><li>• Strategic &amp; business planning</li><li>• Financial modeling &amp; analysis</li><li>• Business &amp; share valuations</li><li>• Litigation support including expert witness services</li></ul>
<b>Corporate Finance Transactions</b>	<ul style="list-style-type: none"><li>• Business sales</li><li>• Mergers &amp; acquisitions</li><li>• Management buy outs</li><li>• Equity capital raising</li></ul>

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