



# MAJOR ELECTRICITY USERS' GROUP

24 December 2009

Dr Julian Elder  
Chief Executive  
WEL Networks  
By email c/- [robyn.meehan@wel.co.nz](mailto:robyn.meehan@wel.co.nz)

Dear Julian

## Viability of Te Uku Wind Farm Project

1. MEUG has reviewed the documentation available on the WEL website related to the Resource Consent Hearing Decision for the Te Uku Wind Farm Project.
2. Aspects of the economics of the wind farm project were disclosed in the Deloitte Corporate Finance's<sup>1</sup> statement of evidence for WEL Networks in relation to those hearings. Deloitte calculated a positive project base case NPV of +\$4.5m. The capital cost of the wind farm is approximately \$200m including HV lines. Deloitte also tested the sensitivity of the project viability and concluded<sup>2</sup>:

*"In summary, the viability of the project is heavily dependent upon retaining its existing configuration. Removal of any single turbine seriously compromises the viability of the project and, in the case of one of the high yielding turbines, would make it difficult for WEL to justify pursuing the project. Removal of any two turbines renders the project unviable based on current investment analysis parameters."*

3. The Deloitte statement of evidence explains the method used to assess the project viability was a standard DCF of the Free Cash Flow to the Firm (FCFF). However the described method of arriving at FCFF appears to be incorrect as the interest tax shield (ie tax deducted from interest expense) has been omitted.<sup>3</sup> The interest tax shield should have been deducted in calculating FCFF.
4. The valuation consequence of the apparent overstatement of FCFF is likely to make the project substantially NPV negative depending on the amount of debt assumed.
5. As Meridian Energy is an alliance partner in this project it may have relied on the WEL/Deloitte financial modelling alluded to in the statement of evidence.

Yours sincerely

Ralph Matthes  
Executive Director

cc Mr Tim Lusk, Chief Executive, Meridian Energy Limited, and Ministry of Economic Development

<sup>1</sup> Refer <http://www.wel.co.nz/files/Wind%20Generation/Callow%20-%20February%2008.pdf>

<sup>2</sup> Ibid, paragraph 6.11

<sup>3</sup> Ibid, paragraphs 3.14 and 3.16