

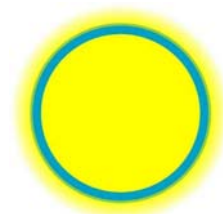
13 August 2004

The Manager
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Attention: Paolo Ryan

POWERCO



Dear Paolo

1. RE: Revised Draft ODV Handbook – Interpretation of “efficient new entrant”.

Powerco has had its attention drawn to a letter sent to you by National Economic Research Associates (NERA) as prepared at the request of ORION. We understand that this letter is intended to provide an independent professional view addressing ORION's stated concerns regarding interpretation of the phrase “efficient new entrant” as it now appears in the Revised Draft ODV Handbook.

Powerco agrees with NERA that the manner in which the ODV is calibrated is important, and that the definition of “new entrant” is relevant here.

The critical issue from the regulated company's perspective is that investors should be able to earn a reasonable return on prudent investments. An inappropriate definition of “new entrant” – for example, one that reflects “superior” rather than average performance – could be very damaging to investment incentives. If new entrants are deemed to be “superior performers”, then investors in “average” companies will be denied reasonable returns.

Powerco would also like to remind the Commission of Geoffrey Horton's evidence in relation to ODV. Geoffrey Horton also stressed the importance of “financial capital maintenance”, and the theoretical weaknesses in the ODV “thought experiment”.

From a broader perspective, Powerco is still anxious to understand how the ODV handbook fits within the Commission's broader regulatory framework. In this regard, NERA's paper is only addressing part of the problem. Without clarity on how ODV is to be used in a regulatory sense,

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investors will have little confidence on which to make investment decisions.

In fact, during the recent gas conference the Commission suggested that acquisition prices that exceed ODV are somehow inappropriate. In Powerco's view, this implies a regulatory approach, which is far removed from incentive-based regulation adopted in overseas jurisdictions. NERA's view that ODV should be conducted on the basis of "average" performers is more consistent with incentive-based regulatory principles. On this basis, we support NERA's comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "S. Boulton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Steven Boulton
CHIEF EXECUTIVE