

Wilson Cook & Co

Engineering and Management Consultants
Advisers and Valuers

Reply to: Auckland Office
Our ref: 0313
Email: jeffrey.wilson@wilsoncook.co.nz

14 November 2003

Mr M J Whaley
Electricity Asset Strategy Manager
Powerco Limited
Private Bag 2004
NEW PLYMOUTH

Dear Mr Whaley

Network Fixed Asset Valuation: Replacement Costs and Lives

On 8 July 2003 you asked us to assist Powerco with the determination of suitable replacement costs for the standard network fixed asset categories listed in the Ministry's 'Handbook for ODV valuation of system fixed assets of electricity lines businesses'. The work arose originally out of Powerco's concern that the Handbook standard replacement costs did not reflect the current replacement costs of the standard asset categories defined in the Handbook and, consequently, that valuations expressed by Powerco in accordance with the Handbook were inadequate.

Subsequently you asked us to review your determination of these costs as finally presented in your November 2003 report. This report was prepared in support of your submission to the Commerce Commission on the adequacy of the Handbook.

We now report as follows in respect of these matters.

Scope of Review

We reviewed the methodology you used for the determination of asset replacement costs for valuation purposes and we also reviewed the data available to you for this purpose in respect of particular asset replacement costs. We met several times with your engineering team to discuss the suitability of the data, its modification and adjustment, and the formulation of replacement costs for the main asset categories. The object of our reviews was to ensure that the replacement costs derived were robust and that they reflected the principles set out in the Handbook.

We compared the costs derived from competitive bids with those estimated internally by your engineering and construction units.

We considered the application of on-costs of various sorts and discussed their reasonableness in light of whether they reflected efficient operational practices.

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We discussed and reviewed the inclusion of cost reductions where the prospect of cost savings existed.

We placed most reliance on competitively-bid prices, where they were available, since *prima facie* they reflect efficient construction practice.

We checked the market-determined costs so derived against your internal cost estimates and our own cost information.

We examined the resulting movements from the Handbook's standard costs for reasonableness and were satisfied that there was adequate explanation for them.

We did not audit the calculation of your replacement costs but have been assured by you that the calculations are in accordance with the methodologies agreed with us and with the principles we outlined for the correct determination of such costs.

Conclusion

On this basis we generally accept your replacement costs, as presented in your November report, as reasonable: and we consider that they would be appropriate for use in valuations undertaken in accordance with the Handbook.

We also agree with and endorse your conclusions in respect of asset lives and multipliers as set out in your November report.

We consider that the conclusions in your November report are consistent with our own experience in the industry.

Disclosure

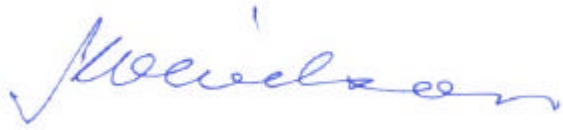
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Yours faithfully,

Wilson Cook & Co Limited

A handwritten signature in blue ink, appearing to read 'Jeffrey Wilson', written in a cursive style.

Jeffrey Wilson