

31 July 2009

Murray Reynolds
Economist
Economic Services Branch
Commerce Commission
PO Box 2351
Wellington

NPB@comcom.govt.nz

Dear Mr Reynolds

Submission on the Revised Draft Guidelines “Estimating the Cost of Capital”

Eastland Network Limited owns and operates the lines for the upper East Coast of the North Island. Eastland Network is 100% owned by the Eastland Community Trust with the Gisborne District Council as sole beneficiary.

Eastland Network distributes approximately 302 GWh of electricity to approximately 26,000 consumers, of which almost two thirds are in Gisborne City and Wairoa Township. The remaining connections are spread out widely, across two isolated distribution networks covering 11,952km², resulting in an overall line density of less than seven connections per kilometre of line.

Eastland Network appreciates the opportunities afforded by the consultation processes. We thank the Commerce Commission (the “Commission”) for continuing engagement with the industry and for providing us with an opportunity to respond to the Revised Draft Guidelines. Our views are aligned with the views taken by the Electricity Network Association (ENA) and PricewaterhouseCoopers (PWC) and we support their submissions on this topic. The views expressed in their submissions reflect the collective view of the industry, and ENL urges the Commission gives these views considerable weight.

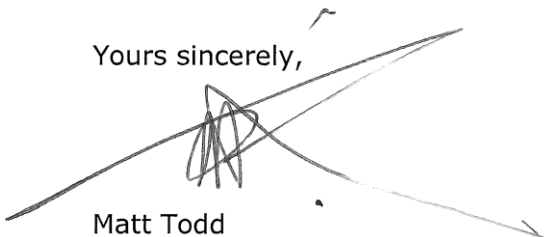
The issue of setting an appropriate WACC is very important to our business operations. We endorse the Commission’s review of the current WACC methodologies. However, it is a

difficult topic to comment on due to its highly technical and the somewhat esoteric nature of the key inputs. For this reason we have chosen not to expend considerable effort on drafting a full submission and therefore support the considered and constructed views of PwC and the ENA.

However, Eastland Network can only urge the Commission to determine a WACC that allows lines businesses to earn a fair and reasonable return on their investments, following the principle of NPV=0. Based on the principle's aim to prohibit profitability significantly exceeding the cost of capital, we acknowledge the Commission's recognition that a firm's regulated revenue naturally fluctuates, sometimes being greater or less than the cost of capital. In terms of investment, however, we note that NPV=0 is regarded as minimum condition and investors seek opportunities where NPV is likely to exceed 0. It is therefore extremely important to set a WACC figure that, when NPV=0, investors are properly incentivised and this is particularly important for lines businesses that face significant capital expenditure.

We look forward to a workshop and further consultation on this matter later this year.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Matt Todd', written over a long, sweeping horizontal line that extends across the width of the signature area.

Matt Todd

Chief Executive