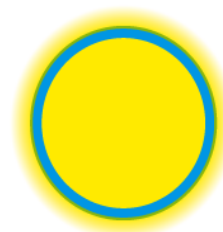


17 September 2015

Dr Mark Berry
Chairman
Commerce Commission
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POWERCO



Dear Mark

RE: POWERCO DECISION TO DEFER ITS 2016 CPP APPLICATION

The Board and Senior Management of Powerco appreciate the professional relationship we have with yourself, your fellow Commissioners and Staff and, as part of this, the ability to have an open and transparent discussion about our intention to apply for a CPP and thinking on timing.

In the interests of maintaining a 'no surprises' relationship, we wanted to advise the Commission that we have decided to defer our decision on making a CPP application. This has been a difficult decision for us to make as the investment/performance needs case underlying Powerco's intention to apply for a CPP is compelling. However, as you are aware, uncertainty of alignment between the DPP and CPP WACC presents a significant barrier to a 2016 application. Given that other stakeholders have challenged the decision to resolve this issue in the 'fast-track' process, the resulting uncertainty means it is unrealistic for Powerco to finalise its CPP application for submission in May 2016.

We appreciate and continue to support the Commission's efforts to expedite a review of the WACC alignment issue through the fast-track process. Resolving the issue in February 2016 as planned would provide the opportunity for any appeals process to be addressed before the end of 2016. This will give the certainty we, and other EDBs, require to press ahead with CPP applications in 2017.

Conversely, deferring the WACC alignment decision until late 2016 increases the risk associated with CPP applications lodged in 2017 in the event that elements of the Input Methodologies are challenged in the Courts during 2017. The increase in risk stems from the nature of the propose-consider-decide model in New Zealand where once a CPP application is lodged it is not able to be withdrawn by an EDB, even if variables such as Input Methodologies change on appeal. This is not to say that Powerco or other EDBs won't lodge CPP applications until every change to the Input Methodologies has been finally settled (either by the Commission's decision not being appealed or by court action), but there are certain variables such as the misalignment of the DPP WACC and the CPP WACC where it would be imprudent to proceed until the issue is resolved.

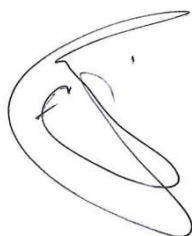
In the meantime, we will focus our immediate CPP work programme on the development of a comprehensive 2016 edition of our Electricity Asset Management Plan (AMP). This will signal the rationale for our future investment plans and address future network issues, including those discussed at the IM Review forum. Our 2016 AMP will then be used for richer and more detailed stakeholder engagement in the lead-up to a future CPP application (we hope in 2017).

In making our decision to defer, we appreciate the efforts made by the Commission to provide a mechanism to resolve the WACC misalignment. We would like to reiterate our view that these efforts continue to be important, as this significant anomaly in the Part 4 regime needs to be resolved to unlock the benefits for consumers of the CPP process.

We look forward to continued engagement on these issues and to improving the DPP/CPP regime through the coming review processes.

Please do not hesitate to contact either myself or Nigel Barbour if you would like to discuss the content of this letter further.

Yours sincerely

A handwritten signature in black ink, appearing to be 'John Loughlin', written in a cursive style.

John Loughlin
CHAIR