

20 November 2013

John McLaren
 Chief Advisor, Regulation Branch
 Commerce Commission
 PO Box 2351
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(BY E-MAIL: john.mclaren@comcom.govt.nz)

Dear John,

EASTLAND NETWORK LIMITED TRANSMISSION SPUR ASSET ACQUISITION – []

The purpose of this letter is to provide additional information in respect of the proposed transmission spur acquisition outlined in my letter of 05 September 2013 (the “Transaction”). Specifically, I am writing to update and expand on:

- The Transaction timing;
- The regulatory interdependences and Transaction certainty.

Transaction timing

My letter of 05 September outlined the proposed timeline and the interdependences in relation to achieving certainty in respect of the treatment of the Transaction under the 2015 default price path (“DPP”) reset process. Subsequent to that letter the Commerce Commission (the “Commission”) released its process paper on the 2015 DPP reset, and we have now amended our Transaction timing to better coordinate with the Commission’s process. Table 1 outlines our current transaction timing and regulatory interdependencies.

The Transaction timing requires Transpower to undertake \$1.0 million of expenditure in April/May 2014 (underwritten by Eastland) and to advise LINZ that they no longer require the zone substation land (acquired under the Public Works Act). The advice to LINZ will trigger an irrevocable process to offering back of any excess land to the previous owners.

The Transaction timing also requires Eastland to undertake a \$1.3 million programme of transfer projects to enable it to operate the assets after Settlement.

Table 1: Transaction milestones

Transaction milestone	Date
Form of asset transfer agreement (“ATA”) agreed: <ul style="list-style-type: none"> • The agreement would include robust termination and default provisions. 	December 2013
Board approval of the Transaction and execution of the ATA. The ATA would be conditional upon: <ul style="list-style-type: none"> • Achieving regulatory certainty acceptable to Eastland; • Agreeing a licence to occupy for Eastland assets located at Tuai. 	February 2014
Eastland and the Commission agree the necessary regulatory certainty.	Target date: March/April 2014
Execution of the licence to occupy for Eastland assets located at Tuai (the “Licence to Occupy”). <ul style="list-style-type: none"> • Execution is conditional upon achieving the regulatory certainty. 	March/April 2014

Transaction milestone	Date
Execution of the customer investment contract ("CIC") for new metering at Tuai. <ul style="list-style-type: none"> • The execution of this contract will commit Transpower to \$1.0 million of project costs which Eastland will underwrite; • Execution is conditional upon achieving regulatory certainty and the execution of the Licence to Occupy. 	March/April 2014
Commencement of the LINZ offer-back process (which relates to the offer-back process for part of the land at Wairoa, Gisborne and Tokomaru Bay substations). <ul style="list-style-type: none"> • Commencement is conditional upon achieving regulatory certainty and execution of the Licence to Occupy. 	March/April 2014
Commencement of design, procurement and installation of new meters at Tuai (by Transpower). <ul style="list-style-type: none"> • The project budget is \$1.0 million; • Commencement is conditional upon execution of the CIC. 	April/May 2014
Commence of design, procurement and installation various transfer projects. <ul style="list-style-type: none"> • This work will enable Eastland's control of the assets after Settlement. The scope of this work include installation of a new control building at Tuai, SCADA & communications equipment at Tuai, Wairoa, Gisborne and Eastland's existing control room, purchase of spares; • The project budget estimate is \$1.3 million. • Commencement is conditional upon achieving the necessary regulatory certainty and execution of the Licence to Occupy. 	July 2014
Settlement date	31 March 2015

The original timeline presented in my 05 September letter contained approximately two months of "float" that has now largely been removed from the new timeline. However, we remain confident that the timeline is achievable.

Regulatory independences and Transaction certainty

We understand the Commission's need to gain sufficient certainty to mitigate any concerns in respect of regulatory gaming (i.e. Eastland not proceeding with the Transaction after it has been incorporated in the 2015 DPP reset). To provide the necessary certainty Eastland would be prepared to commit to the Transaction, unconditional contracts and associated expenditure prior to the 2015 DPP reset final determination provided that it could satisfy itself of the criteria upon which the Commission would include the Transaction inputs into the 2015 DPP reset.

To provide sufficient time to complete the metering and transfer projects ahead of Settlement, we believe that details of criteria upon which the Commission would include the Transaction inputs into the 2015 DPP would need to be agreed in March/April 2014; and to work within the Commission's proposed timeline, Eastland would need to satisfy the specific criteria by August/September 2014.

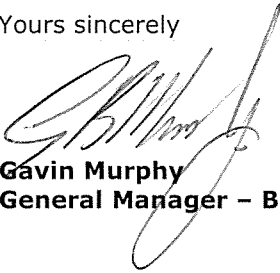
Eastland is also be prepared to provide the Commission with a letter of understanding that would detail how Eastland would reduce it prices (from those set by the Commission that include the Transaction) should the Transaction not proceed. While we believe that it is very unlikely that the Transaction will not proceed, we believe that it is appropriate for Eastland to provide this type of assurance to the Commission. We are presently looking into how such a letter of understanding could be legally enforced, however, if properly drafted, we would expect that such an undertaking by Eastland would allow the Commission (and other stakeholders) to hold Eastland and its Board to account in respect of these commitments.

Concluding comments

In summary, Eastland would be prepared to commit to the Transaction prior to the 2015 DPP reset final determination provided that it could satisfy itself of the criteria upon which the Commission would include the Transaction inputs into the 2015 DPP reset. In this way Eastland's need for regulatory certainty can be satisfied and the Commission's need for Transaction certainty can be achieved.

Regulatory certainty and Transaction certainty are important matters for both of Eastland and the Commission and we are available to discuss the approach to achieving this at your convenience.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gavin Murphy', written over a white background.

Gavin Murphy
General Manager – Business Development