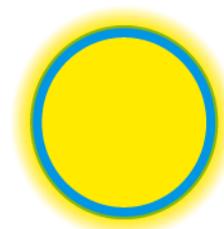


30 September 2014

Dr John Hamill
General Manager Regulation
Commerce Commission
PO Box 2351
WELLINGTON 6011

POWERCO



Dear John

Re: Independent expert advice on the further cost of capital material published by the Commission on 19 September 2014 for response

Please find attached a report for Powerco by HoustonKemp Economists entitled *Analysis of Further Evidence in the Commerce Commission's Review of the WACC Percentile*, 30 September 2014. This paper provides expert advice in response to the Commission's 19 September 2014 paper *Further work on cost of capital input methodologies: Invitation for submissions on further evidence*.

This response is necessarily at a high level, as the Commission has allowed a very limited time for parties to consider the new material and reply. We wish to register our continuing concern at the unreasonable haste with which the Commission is attempting to complete this review. The issues being raised are complex and serious, and the models and data points being discussed are incomplete. We do not believe a quality decision will be possible in these circumstances and we therefore urge the Commission to defer consideration of this issue to the 2017 review of all input methodologies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Fletcher', written in a cursive style.

Richard Fletcher
General Manager Regulation and Government Affairs