

18 February 2005

Mr Peter Finley
Corporate Finance Manager
ENERGEX Limited
GPO Box 1461
Brisbane QLD 4001

Dear Mr Finley

Agreed-Upon Procedures Report – The Windfall Depreciation Excel Model

This letter outlines the scope, approach and findings of the agreed procedures performed in respect of the Windfall Depreciation Model prepared by ENERGEX.

The primary purpose of the procedures agreed upon in this review was to confirm that the figures used in ENERGEX's Windfall Depreciation model agree to source figures (where it is practicable to check this) and that the calculations performed by the model are accurate based upon the inputs or assumptions provided by ENERGEX.

Scope:

The agreed procedures outlined below were performed in relation to the Windfall Depreciation Model (refer attached Appendix 2) as at 10 February 2005 prepared by Ross Culpitt (Senior Network Economic Analyst). The summary page of the model reflects that the AARR calculation based on the new asset lives (2003) exceeds the AARR calculation based on the old asset lives determined in 1999 by approximately \$10.376 Million.

Scope Limitations:

The review did not:

- provide an opinion as to the appropriateness of the methodology (including the assumptions therein), adopted for calculating the windfall depreciation;
- provide an assessment as to the overall accuracy or appropriateness of the depreciation windfall numbers which have been calculated (e.g. net "windfall" or "amount owing"); and
- reconcile the assets in the model back to the underlying fixed asset register.

The agreed procedures performed in this review do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements; and we do not express any assurance on the Windfall Depreciation Model. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing

Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose or distributed to any other party, with the exception of the Queensland Competition Authority (QCA). This report relates only to the items specified above and does not extend to any financial report of ENERGEX.

Approach

The procedures agreed to be performed in respect of the Windfall Depreciation Model were:

1. The system asset data included in the model was matched to the data included in the Gutteridge Haskins and Davey Pty Ltd (GHD) review document “Queensland Electricity Distribution Corporations ODRC Valuation of Electricity Supply Assets” dated September 2000. The matching included the following data elements:
 - Dec 1999 Replacement Cost (RC);
 - Urban factor (to be applied);
 - Dec 2003 Standard Life;
 - Dec 1999 Standard Life;
 - Unit i.e. number or kilometre;
 - Dec 1999 Quantity of Assets;
 - Dec 1999 Weighted Average Age;
2. Identification of any “hard coded” numbers in the model; and
3. Assess the consistency of the application of the formulas in the model to the relevant cells. This included reviewing the formula for
 - the replacement cost (RC) as at 12/99 and 06/01
 - the Depreciated Optimised Replacement Cost (DORC) and Depreciation based on the ‘Old Lives’ and ‘New Lives’ at 06/01, 06/02, 06/03, 06/04 and 06/05;
 - the Asset Roll forward closing value – Old Lives and New Lives as at 2001/02, 2002/03, 2003/04 and 2004/05;
 - the Total AARR Calculation – Old Lives and New Lives as at 2001/02, 2002/03, 2003/04 and 2004/05; and
 - the AARR adjustment for each year - 2001/02, 2002/03, 2003/04 and 2004/05

A detailed overview of the work performed is attached as Appendix 1 – Windfall Deprecation Model Review.

Findings:

Based on the performance of our agreed procedures, the findings of this review in relation to the Windfall Depreciation Model as at 10 February 2005 are:

- The system asset data included in the model matches to the data included in the GHD review document “Queensland Electricity Distribution Corporations ODRC Valuation of Electricity Supply Assets” dated September 2000;
- The model does not include any “hard coded” numbers;
- The formulas included in the model have been consistently applied to all relevant cells in the model.

Yours sincerely

Ernst & Young

Brisbane

cc Audit and Compliance Committee
Group Manager Internal Audit
Chief Executive Officer

1. Appendix 1 – Windfall Depreciation Model Review

Overview

The QCA draft determination (dated December 2004) has determined that in respect of the Optimised Depreciated Replacement Cost valuation (ODRC) of the ENERGEX network, ENERGEX has determined that a ‘windfall’ adjustment is required as a consequence of the change in standard asset lives as established by Sinclair Knight Merz (SKM) in 2004. As this windfall impacts ENERGEX’s revenue cap in the next regulatory period, ENERGEX has recalculated the depreciation applicable to these assets to validate the accuracy of the additional depreciation.

ENERGEX is required to respond to the QCA by 25 February 2005. In reviewing the Windfall Depreciation model ENERGEX has determined that the QCA figures differ from its own calculations.

The Windfall Depreciation Model prepared by ENERGEX is documented below. The letters in **bold** refer to the individual elements of the calculation as discussed in the various tables below.

A number of acronyms are used throughout the report. Please refer to the glossary below:

RC:	Replacement Cost of the asset.
DORC:	Depreciation Optimised Replacement Cost. This is the replacement cost of the asset after accumulated depreciation has been deducted.
GHD Document:	Refers to the document: “Queensland Electricity Distribution Corporations ODRC Valuation of Electricity Supply Assets” dated September 2000.
Old Lives:	Refers to the number of years that an asset may be depreciated over as at December 1999.
New Lives:	Refers to number of years that an asset may be depreciated over as at December 2003.
Std Life:	Standard life of the asset.

1.1 Input Data Validation (extract below):

The table below shows a sample of the “hard coded” data that exists in the current Windfall Depreciation Model. This data was validated against the GHD document "Queensland Electricity Distribution Corporations ODRC Valuation of Electricity Supply Assets” dated September 2000. This document will be referred to as the GHD document for the remainder of the report.

Each column has been labelled with a letter (A, B, C...) to enable referencing between the model columns (below) and the results tables contained in this document.

The results of the validation are contained in Section 1.2.

System Assets	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Input data	Dec 1999 Unit RC	Urban Factor	Dec 2003 Std Life	Dec 1999 Std Life	Unit	Dec 1999 QTY OF ASSET	Dec 1999 WEIGHTED AV AGE
132/110 kV OH 1.1 DCST	163,200	1.06	60	50.00	km	355	23
132/110 kV OH 1.2 DCCP	136,500	1.55	55	50.00	km	24	11
132/110 kV OH 1.4 SCCP	95,000	1.1	55	50.00	km	118	18
132/110 kV OH 1.5 SCWP	110,000		55	45.00	km	222	31
33 kV Overhead 3.1	69,500	1.15	45	35.00	km	3.93	19.98
33 kV Overhead 3.2	47,100		45	35.00	km	230.56	19.98
33 kV Overhead 3.3	33,000		45	35.00	km	322.89	19.98
33 kV Overhead 3.3 / Conc	49,800		55	50.00	km	9.15	11.15
33 kV Overbuild 3.4 / 3.1	76,300	1.15	45	35.00	km	315.99	19.98
33 kV Overbuild 3.4 / 3.2	50,100		45	35.00	km	665.69	19.98
33 kV Overbuild 3.4 / 3.3	35,100		45	35.00	km	228.62	19.98
33 kV Overbuild 3.4 / 3.1 (Conc)	105,400	1.15	55	50.00	km	4.56	11.15
33 kV Overbuild 3.4 / 3.2 (Conc)	67,700		55	50.00	km	17.93	11.15
33 kV Overbuild 3.4 / 3.3 (Conc)	52,200		55	50.00	km	2.05	11.15
33 kV Underbuild 3.1 (NEW)	24,300		55	35.00	km	23.32	19.98

1.2 Input Data Validation Results

This section sets out the results for the Input Data Validation process undertaken by Ernst & Young.

Reference	Data Validation Process	Results
A	Verification of “Dec 1999 Unit Replacement Cost” values against the values contained in the GHD document.	All values in the model agreed to the values contained in the GHD document.
B	Verification of “Urban Factor” values against the values contained in the GHD document.	All values in the model agreed to the values contained in the GHD document.
C	Verification of “Dec 2003 Standard Life” values against the values contained in the SKM “Queensland Competition Authority Valuation of Queensland Distributors” document dated 18 November 2004.	<p>All values in the model agreed to the values contained in the SKM document where they could be identified. Three items could not be verified against the SKM document and were referred back to ENERGEX;</p> <ul style="list-style-type: none"> • Mobile Substation, • 33kV polemount < Kva 33/.415 • 33kV polemount < Kva 33/.415 <p>The ENERGEX Senior Network Economic Analyst advised that the data had been verified with QCA and accept it as correct.</p>
D	Verification of “Dec 1999 Standard Life” values against the GHD document values.	All values in the model agreed to the values contained in the GHD document. One item did not reconcile to the GHD report as the GHD report contained a blank entry. The item was the “Dec 1999 Std Life” for Communications Equipment (cell reference is E96). The Senior Network Economic Analyst advised that this number was accurate.
E	Verification of “Unit” values against the GHD document values. Note that the Unit is for information purposes only.	All values in the model agreed to the values contained in the GHD document.
F	Verification of “Dec 1999 Quantity of Asset” values against the GHD document values.	All values in the model agreed to the values contained in the GHD document.
G	Verification of “Dec 1999 Weighted Average Age” values against the GHD document values.	All values in the model agreed to the values contained in the GHD document.

1.3 Formula Review – RC, DORC and Depreciation (extract below)

The extract below shows a sample of the data that has been validated for this section of the model. The results of the validation process are contained in section 1.4.

	H	I	J	K	L	M
System Assets			All 06/01 Values			
Input data	RC 12/99	RC 06/01	Old Lives		New Lives	
			DORC	DEPN	DORC	DEPN
132/110 kV OH 1.1 DCST	61429	63353	34426	1267	39247	1056
132/110 kV OH 1.2 DCCP	5129	5289	4157	106	4260	96
132/110 kV OH 1.4 SCCP	12357	12744	8207	255	8620	232
132/110 kV OH 1.5 SCWP	24387	25151	7914	559	11048	457
33 kV Overhead 3.1	314	324	139	9	180	7
33 kV Overhead 3.2	10859	11199	4806	320	6227	249
33 kV Overhead 3.3	10655	10989	4716	314	6110	244
33 kV Overhead 3.3 / Conc	456	470	365	9	375	9
33 kV Overbuild 3.4 / 3.1	27727	28595	12271	817	15899	635
33 kV Overbuild 3.4 / 3.2	33351	34395	14760	983	19124	764
33 kV Overbuild 3.4 / 3.3	8025	8276	3552	236	4601	184
33 kV Overbuild 3.4 / 3.1 (Conc)	553	570	443	11	454	10
33 kV Overbuild 3.4 / 3.2 (Conc)	1214	1252	973	25	998	23
33 kV Overbuild 3.4 / 3.3 (Conc)	107	110	86	2	88	2
33 kV Underbuild 3.1 (NEW)	567	584	251	17	372	11

1.4 Formula Review – RC, DORC and Depreciation

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
H	<p><u>Replacement Cost of Asset at 12/99:</u></p> <p>This formula calculates replacement cost of the asset as at Dec 1999.</p> <p>Calculation = <i>Dec 1999 Unit Cost for the asset multiply by Dec 1999 Qty of Assets multiply by Urban Factor (if one exists).</i></p>	<p>All items for RC 12/99 were calculated using the same formula. The Urban Factor used in the calculation corresponds with the data in the GHD report.</p>
I	<p><u>Replacement Cost of Asset at 06/01:</u></p> <p>This is a revaluation of the Dec 1999 asset value up to 06/01 using an inflation factor. It does not take into account any depreciation.</p> <p>Calculation = <i>RC 1999 value (above) X 1.03131.</i></p>	<p>All items for RC 06/01 were calculated using the same formula. We have been advised that the inflation factor used in the formula (1.03131) has been agreed with the QCA. This has not been verified.</p>
J	<p><u>Old Lives Depreciation Optimised Replacement Cost (DORC):</u></p> <p>This formula calculates the DORC for the asset using the 06/01 replacement cost (see I) and the standard life of the asset as at Dec 1999.</p> <p>Calculation = <i>Replacement Cost at 06/01 (see I) less depreciation to date using Dec 1999 Standard Life (see D).</i></p>	<p>All calculations were consistent for all assets.</p>
K	<p><u>Depreciation on Old Lives DORC:</u></p> <p>Calculates the annual asset depreciation value using the standard life of the asset as at December 1999.</p> <p>Calculation = <i>Replacement cost of asset at 06/01 (see I) divided by Dec 1999 Standard Life (see D).</i></p>	<p>All calculations were consistent for all assets.</p>
L	<p><u>New Lives Depreciation Optimised Replacement Cost (DORC):</u></p> <p>This formula calculates the DORC for the asset (see I) using the 06/01 replacement cost and the standard life of the asset as at Dec 2003.</p> <p>Calculation = <i>Replacement Cost at 06/01 (above) less depreciation to date using Dec 2003 Standard Life (see C).</i></p>	<p>All calculations were consistent for all assets.</p>

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
M	<p><u>Depreciation on New Lives DORC:</u></p> <p>Calculates the annual asset depreciation value using the standard life of the asset as at December 2003.</p> <p>Calculation = <i>Replacement cost of asset at 06/01 (see I) divided by Dec 2003 Standard Life (see C).</i></p>	<p>All calculations were consistent for all assets.</p>

1.5 Formula Review – Assets Using Old Lives (Dec 1999)

The extract below shows a sample of the data that has been validated for this section of the model. The results of the validation process are contained in section 1.6.

	N	O	P	Q	R
System Assets	All 06/01 Values				
Input data	Old Lives				
	DORC 06/01	06/02	06/03	06/04	06/05
132/110 kV OH 1.1 DCST	32525	31258	29991	28724	27457
132/110 kV OH 1.2 DCCP	3999	3893	3787	3681	3575
132/110 kV OH 1.4 SCCP	7825	7570	7315	7060	6805
132/110 kV OH 1.5 SCWP	7076	6517	5958	5399	4840
33 kV Overhead 3.1	125	116	107	97	88
33 kV Overhead 3.2	4326	4006	3686	3366	3046
33 kV Overhead 3.3	4245	3931	3617	3303	2989
33 kV Overhead 3.3 / Conc	351	342	332	323	313
33 kV Overbuild 3.4 / 3.1	11046	10229	9412	8595	7778
33 kV Overbuild 3.4 / 3.2	13286	12304	11321	10338	9356
33 kV Overbuild 3.4 / 3.3	3197	2960	2724	2487	2251
33 kV Overbuild 3.4 / 3.1 (Conc)	426	414	403	392	380
33 kV Overbuild 3.4 / 3.2 (Conc)	935	910	885	860	835
33 kV Overbuild 3.4 / 3.3 (Conc)	82	80	78	76	74
33 kV Underbuild 3.1 (NEW)	226	209	192	176	159

1.6 Formula Verification – Assets Using Old Lives (Dec 1999)

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
N	<p><u>Old Lives DORC at 06/01:</u></p> <p>This calculation generates the DORC for the asset as at 06/01 including the deduction of depreciation using the old lives depreciation rate.</p> <p>Calculation = <i>Old Lives DORC (see J) less 1.5 years of Old Lives Depreciation (see K).</i></p>	<p>All calculations were consistent for all assets. The 1.5 factor is included to deduct 18 months of depreciation from the asset value. This is due to the Old Lives DORC (see J) being calculated using the asset age as at Dec 1999. As this calculation (N) is generating a DORC value as at 06/01 an extra 18 months of depreciation needs to be taken off the asset value.</p>
O	<p><u>Old Lives DORC at 06/02:</u></p> <p>This calculation generates the DORC for the asset as at 06/02 including depreciation using the old lives depreciation rate.</p> <p>Calculation = <i>Old Lives DORC at 06/01 (see N above) less 1 year of Old Lives Depreciation (see K).</i></p>	<p>All calculations were consistent for all assets.</p>
P	<p><u>Old Lives DORC at 06/03:</u></p> <p>This calculation generates the DORC for the asset as at 06/03 including depreciation using the old lives depreciation rate.</p> <p>Calculation = <i>Old Lives DORC at 06/02 (see O above) less 1 year of Old Lives Depreciation (see K).</i></p>	<p>All calculations were consistent for all assets.</p>
Q	<p><u>Old Lives DORC at 06/04:</u></p> <p>This calculation generates the DORC for the asset as at 06/04 including depreciation using the old lives depreciation rate.</p> <p>Calculation = <i>Old Lives DORC at 06/03 (see P above) less 1 year of Old Lives Depreciation (see K).</i></p>	<p>All calculations were consistent for all assets.</p>
R	<p><u>Old Lives DORC at 06/05:</u></p> <p>This calculation generates the DORC for the asset as at 06/05 including depreciation using the old lives depreciation rate.</p> <p>Calculation = <i>Old Lives DORC at 06/04 (see Q above) less 1 year of Old Lives Depreciation (see K).</i></p>	<p>All calculations were consistent for all assets.</p>

1.7 Formula Review – Assets Using New Lives (Dec 2003)

The extract below shows a sample of the data that has been validated for this section of the model. The results of the validation process are contained in section 1.8.

	S	T	U	V	W
System Assets	All 06/01 Values				
Input data	New Lives				
	DORC 06/01	06/02	06/03	06/04	06/05
132/110 kV OH 1.1 DCST	37663	36607	35551	34496	33440
132/110 kV OH 1.2 DCCP	4116	4020	3924	3827	3731
132/110 kV OH 1.4 SCCP	8272	8040	7809	7577	7345
132/110 kV OH 1.5 SCWP	10362	9905	9447	8990	8533
33 kV Overhead 3.1	169	162	155	148	141
33 kV Overhead 3.2	5854	5605	5356	5107	4858
33 kV Overhead 3.3	5744	5499	5255	5011	4767
33 kV Overhead 3.3 / Conc	362	353	345	336	328
33 kV Overbuild 3.4 / 3.1	14945	14310	13675	13039	12404
33 kV Overbuild 3.4 / 3.2	17977	17213	16449	15684	14920
33 kV Overbuild 3.4 / 3.3	4325	4142	3958	3774	3590
33 kV Overbuild 3.4 / 3.1 (Conc)	439	429	418	408	397
33 kV Overbuild 3.4 / 3.2 (Conc)	964	941	918	896	873
33 kV Overbuild 3.4 / 3.3 (Conc)	85	83	81	79	77
33 kV Underbuild 3.1 (NEW)	356	346	335	324	314

1.8 Formula Review – Assets Using New Lives (Dec 2003)

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
S	<p><u>New Lives DORC at 06/01:</u></p> <p>This calculation generates the DORC for the asset as at 06/01 including the deduction of depreciation using the new lives depreciation rate.</p> <p>Calculation = <i>New Lives DORC (see L) less 1.5 years of New Lives Depreciation (see M).</i></p>	<p>All calculations were consistent for all assets. The 1.5 factor is included to deduct 18 months of depreciation from the asset value. This is due to the New Lives DORC (see L) being calculated using the asset age as at Dec 1999. As this calculation (S) is generating a DORC value as at 06/01 an extra 18 months of depreciation needs to be taken off the asset value.</p>
T	<p><u>New Lives DORC at 06/02:</u></p> <p>This calculation generates the DORC for the asset as at 06/02 including the deduction of depreciation using the new lives depreciation rate.</p> <p>Calculation = <i>New Lives DORC at 06/01 (see S above) less– 1 year of New Lives Depreciation (see M).</i></p>	<p>All calculations were consistent for all assets.</p>
U	<p><u>New Lives DORC at 06/03:</u></p> <p>This calculation generates the DORC for the asset as at 06/03 including the deduction of depreciation using the new lives depreciation rate.</p> <p>Calculation = <i>New Lives DORC at 06/02 (see T above) less 1 year of New Lives Depreciation (see M).</i></p>	<p>All calculations were consistent for all assets.</p>
V	<p><u>New Lives DORC at 06/04:</u></p> <p>This calculation generates the DORC for the asset as at 06/04 including the deduction of depreciation using the new lives depreciation rate.</p> <p>Calculation = <i>New Lives DORC at 06/03 (see U above) less 1 year of New Lives Depreciation (see M).</i></p>	<p>All calculations were consistent for all assets.</p>
W	<p><u>New Lives DORC at 06/05:</u></p> <p>This calculation generates the DORC for the asset as at 06/05 including the deduction of depreciation using the new lives depreciation rate.</p> <p>Calculation = <i>New Lives DORC at 06/04 (see V above) less 1 year of New Lives Depreciation (see M).</i></p>	<p>All calculations were consistent for all assets.</p>

1.9 Asset Roll Forward - Old Lives Data

The table below shows the results of the Asset Roll Forward calculations using the Old Lives Data. These figures show the total value of the assets for each year with adjustments for depreciation, revaluation and the application of an inflation factor (0.0208).

	X	Y	Z	AA
Asset Roll forward - Old lives				
	2001/02	2002/03	2003/04	2004/05
Opening Value	1108386	1071383	1032360	991251
Less Depn	60058	61307	62582	63770
Plus Revaluation	23054	22285	21473	20618
Closing Value	1071383	1032360	991251	948099

1.10 Asset Roll Forward – Old Lives -Validation Results

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
X	<p><u>Asset Roll Forward Old Lives 2001/02</u></p> <p>This section of the model calculates the asset values at the beginning/end of each period using the Old Lives data calculated in the model previously. It includes an inflation factor of 0.0208 which is applied asset revaluation and depreciation calculations.</p> <p>Opening Balance: <i>Old Lives DORC at 06/01 (see N)</i></p> <p>Less Depreciation: <i>Old Lives Depreciation for 01/02 year multiplied by 1.0208</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	<p>ENERGEX staff advised that the 0.0208 inflation factor has been agreed with QCA. This has been verified to the QCA final determination document “Regulation of Electricity Distribution” dated May 2001.</p>
Y	<p><u>Asset Roll Forward Old Lives 2002/03</u></p> <p>This section calculates the roll forward value for the 2002/2003 year.</p>	<p>The formulas are consistent.</p>

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
	<p>Opening Balance: <i>Closing Balance of Old Lives DORC 06/01 (see X).</i></p> <p>Less Depreciation: <i>Old Lives Depreciation for 02/03 year by 1.0208 to the power of 2. This is to add the inflation factor of 1.0208 to the previous year's inflation factor.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by .0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	
Z	<p><u>Asset Roll Forward Old Lives 2003/04</u></p> <p>This section calculates the roll forward value for the 2003/2004 year.</p> <p>Opening Balance: <i>Closing Balance of Old Lives DORC 06/02 (See Y).</i></p> <p>Less Depreciation: <i>Old Lives Depreciation for 03/04 year multiplied by 1.0208 to the power of 3.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	The formulas are consistent.
AA	<p><u>Asset Roll Forward Old Lives 2004/05</u></p> <p>This section calculates the roll forward value for the 2004/2005 year.</p> <p>Opening Balance: <i>Closing Balance of Old Lives DORC 06/03 (See Z).</i></p> <p>Less Depreciation: <i>Old Lives Depreciation for 04/05 year multiplied by 1.0208 to the power of 4.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	The formulas are consistent.

1.11 Asset Roll Forward - New Lives

The table below shows the results of the Asset Roll Forward calculations using the New Lives data. These figures show the total value of the assets for each year with adjustments for depreciation, revaluation and the application of an inflation factor (0.0208).

	AB	AC	AD	AE
Asset Roll forward - New lives				
	2001/02	2002/03	2003/04	2004/05
Opening Value	1317516	1295840	1272692	1248021
Less Depn	49080	50101	51143	52207
Plus				
Revaluation	27404	26953	26472	25959
Closing Value	1295840	1272692	1248021	1221773

1.12 Asset Roll Forward – New Lives -Validation Results

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
AB	<p><u>Asset Roll Forward New Lives 2001/02</u></p> <p>This section of the model calculates the asset values at the beginning/end of each period using the using the New Lives data calculated in the model previously. It includes an inflation factor of 0.0208 on asset revaluation a depreciation calculations.</p> <p>Opening Balance: <i>New Lives DORC at 06/01 (see S)</i></p> <p>Less Depreciation: <i>New Lives Depreciation for 01/02 year multiplied by 1.0208</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	<p>Advised that the 0.0208 inflation factor has been agreed with QCA. This has been verified to the QCA final determination document “Regulation of Electricity Distribution” dated May 2001.</p>
AC	<p><u>Asset Roll Forward New Lives 2002/03</u></p> <p>This section calculates the roll forward value for the 2002/2003 year.</p>	<p>The formulas are consistent.</p>

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
	<p>Opening Balance: <i>Closing Balance of New Lives DORC 06/01 (See AB).</i></p> <p>Less Depreciation: <i>New Lives Depreciation for 02/03 year multiplied by 1.0208 to the power of 2. This is to add the inflation factor of 1.0208 to the previous year's inflation factor.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	
AD	<p><u>Asset Roll Forward New Lives 2003/04</u></p> <p>This section calculates the roll forward value for the 2003/2004 year.</p> <p>Opening Balance: <i>Closing Balance of New Lives DORC 06/02 (See AC).</i></p> <p>Less Depreciation: <i>New Lives Depreciation for 03/04 year multiplied by 1.0208 to the power of 3.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	The formulas are consistent.
AE	<p><u>Asset Roll Forward New Lives 2004/05</u></p> <p>This section calculates the roll forward value for the 2004/2005 year.</p> <p>Opening Balance: <i>Closing Balance of New Lives DORC 06/03 (See AD).</i></p> <p>Less Depreciation: <i>New Lives Depreciation for 04/05 year multiplied by 1.0208 to the power of 4.</i></p> <p>Plus Revaluation: <i>Opening balance (above) multiplied by 0.0208</i></p> <p>Closing Balance: <i>Opening Balance Less Depreciation Plus Revaluation</i></p>	The formulas are consistent.

1.13 AARR Calculation - Old Lives - Data

This table below shows the results of the Average Annual Revenue Return calculations using the Old Lives Data.

	AF	AG	AH	AI	AJ
AARR Calculation - Old lives					
	2001/02	2002/03	2003/04	2004/05	Total
Return on Assets	66171	63962	61632	59178	250942
Return of Assets	60058	61307	62582	63770	247717
Total AARR	126228	125269	124214	122948	498659

1.14 AARR Calculation – Old Lives - Validation Results

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
AF	<p><u>AARR Calculation 2001/02</u></p> <p>This section calculates the AARR figure for the 2001/02 year using the Old Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward Old Lives Opening Balance 2001/02 (see X) multiplied by 0.0805 minus the 2001/02 Old Lives Revaluation Amount (see X)</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward Old Lives Depreciation (see X)</i></p> <p>Total AARR for 2001/02 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	<p>Advised that the 0.0805 WACC factor has been agreed with QCA. This has been verified to the QCA final determination document “Regulation of Electricity Distribution” dated May 2001.</p>
AG	<p><u>AARR Calculation 2002/03</u></p> <p>This section calculates the AARR figure for the 2002/03 year using the Old Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward Old Lives Opening Balance 2002/03 (see Y) multiplied by 0.0805 minus Asset Roll Forward</i></p>	<p>The formulas are consistent.</p>

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
	<p><i>Old Lives Revaluation (see Y).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward Old Lives Depreciation (see Y)</i></p> <p>Total AARR for 2002/03 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	
AH	<p><u>AARR Calculation 2003/04</u></p> <p>This section calculates the AARR figure for the 2003/04 year using the Old Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward Old Lives Opening Balance 2003/04 (see Z) multiplied by 0.0805 minus Asset Roll Forward Old Lives Revaluation (see Z).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward – Old Lives Depreciation (see Z)</i></p> <p>Total AARR for 2003/04 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	The formulas are consistent.
AI	<p><u>AARR Calculation 2004/05</u></p> <p>This section calculates the AARR figure for the 2004/05 year using the Old Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward Old Lives Opening Balance 2004/05 (see AA) multiplied by 0.0805 minus Asset Roll Forward Old Lives Revaluation (see AA).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward Old Lives Depreciation (see AA)</i></p> <p>Total AARR for 2004/05 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	The formulas are consistent.
AJ	<p><u>Total</u></p> <p>This section sums the Return on Assets and Return on Assets (Depreciation) Old Lives. It also provides an overall total.</p>	The “Total” calculation was accurate.

1.15 AARR Calculation - New Lives – Data

This table below shows the results of the Average Annual Revenue Return calculations using the New Lives Data.

	AK	AL	AM	AN	AO
AARR Calculation - New lives					
	2001/02	2002/03	2003/04	2004/05	Total
Return on Assets	78656	77362	75980	74507	306504
Return of Assets	49080	50101	51143	52207	202531
Total AARR	127736	127463	127123	126714	509035
AARR Adjustment/yr	-1507	-2194	-2909	-3766	-10376

1.16 AARR Calculation - New Lives – Validation Results

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
AK	<p><u>AARR Calculation 2001/02</u></p> <p>This section calculates the AARR figure for the 2001/02 year using the New Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward New Lives Opening Balance 2001/02 (see AB) multiplied by 0.0805 minus Asset Roll Forward New Lives Revaluation (see AB).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward Old Lives Depreciation (see AB)</i></p> <p>Total AARR for 2001/02 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	<p>Advised that the 0.0805 WACC factor has been agreed with QCA. This has been verified to the QCA final determination document “Regulation of Electricity Distribution” dated May 2001.</p>
AL	<p><u>AARR Calculation 2002/03</u></p> <p>This section calculates the AARR figure for the 2002/03 year using the New Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward New Lives Opening Balance 2002/03 (see AC) multiplied by 0.0805 minus Asset</i></p>	<p>The formulas are consistent.</p>

Reference	ENERGEX Methodology Description	Ernst & Young Work Performed
	<p><i>Roll Forward New Lives Revaluation (see AC).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward New Lives Depreciation (see AC)</i></p> <p>Total AARR = Return on Assets + Return on Assets (Depreciation)</p>	
AM	<p><u>AARR Calculation 2003/04</u></p> <p>This section calculates the AARR figure for the 2003/04 year using the New Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward New Lives Opening Balance 2003/04 (see AD) multiplied by 0.0805 minus Asset Roll Forward New Lives Revaluation (see AD).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward New Lives Depreciation (see AD)</i></p> <p>Total AARR for 2003/04 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	The formulas are consistent.
AN	<p><u>AARR Calculation 2004/05</u></p> <p>This section calculates the AARR figure for the 2004/05 year using the New Lives base.</p> <p>Return on Assets Calculation = <i>Asset Roll Forward Old Lives Opening Balance 2004/05 (see AE) multiplied by 0.0805 minus Asset Roll Forward New Lives Revaluation (see AE).</i></p> <p>Return On Assets Calculation (Depreciation) = <i>Asset Roll Forward New Lives Depreciation (see AE)</i></p> <p>Total AARR for 2004/05 = <i>Return on Assets + Return on Assets (Depreciation)</i></p>	The formulas are consistent.
AO	<p><u>Total</u></p> <p>This section sums the Return on Assets and Return on Assets (Depreciation) for the new lives. It provides an overall total.</p>	The “Total” calculation was accurate.

40.4	47.8	18.4	<u>2197039</u>	<u>2265828</u>	<u>1196637</u>	<u>58834</u>	<u>1389636</u>	<u>48080</u>	<u>1108386</u>	<u>1049552</u>	<u>990718</u>	<u>931884</u>	<u>873154</u>	<u>1317516</u>	<u>1269435</u>	<u>1221355</u>	<u>1173275</u>	<u>1125195</u>
										<u>58834</u>	<u>58834</u>	<u>58834</u>	<u>58729</u>		<u>48080</u>	<u>48080</u>	<u>48080</u>	<u>48080</u>

Asset Roll forward - Old lives				
	2001/02	2002/03	2003/04	2004/05
Opening Value	1108386	1071383	1032360	991251
Less Depn	60058	61307	62582	63770
Plus Revaluation	23054	22285	21473	20618
Closing Value	1071383	1032360	991251	948099

AARR Calculation - Old lives					
	2001/02	2002/03	2003/04	2004/05	Total
Return on Assets	66171	63962	61632	59178	250942
Return of Assets	60058	61307	62582	63770	247717
Total AARR	126228	125269	124214	122948	498659

Asset Roll forward - New lives				
	2001/02	2002/03	2003/04	2004/05
Opening Value	1317516	1295840	1272692	1248021
Less Depn	49080	50101	51143	52207
Plus Revaluation	27404	26953	26472	25959
Closing Value	1295840	1272692	1248021	1221773

AARR Calculation - New lives					
	2001/02	2002/03	2003/04	2004/05	Total
Return on Assets	78656	77362	75980	74507	306504
Return of Assets	49080	50101	51143	52207	202531
Total AARR	127736	127463	127123	126714	509035
AARR Adjustment/yr	-1507	-2194	-2909	-3766	-10376

