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Po ADJUSTMENT MODEL - EXPLANATION OF AMENDMENTS

The Commission's Po adjustment model (the model) sets out the manner in which Power and Water's efficient costs of supplying standard control services in a single regulatory year are to be calculated for the 2009 Networks Regulatory Reset.

Following representations made by Power and Water, the Commission has agreed to some refinements to the Po adjustment model, and in particular the Regulatory Asset Base (RAB) roll forward, as outlined below. The Po Adjustment Model Version 2 incorporates these amendments.

(a) Annual Depreciation

To reflect Power and Water's practice of calculating depreciation at the individual asset level in its asset register, Power and Water's actual depreciation is now an input (in the 'RAB Inputs' sheet) into the model. In the previous version of the model, depreciation was calculated in the 'RAB Roll Forward' sheet based on average remaining asset lives for each of Power and Water's asset classes.

(b) Depreciation of New Capital

Calculation of 2008-09 annual depreciation (Return of Capital) in the 'RAB Roll Forward' sheet has been amended to include the depreciation of 2008-09 new capital. In the previous version of the model, this component of annual depreciation in 2008-09 was unintentionally omitted.

(c) 2008-09 New Capital

The 2008-09 New Capital formula in the 'RAB Roll Forward' sheet has been corrected so that only depreciation of 2008-09 new capital is subtracted from the 2008-09 new capital value. In the previous version of the model, total annual depreciation was incorrectly subtracted from the 2008-09 new capital value.