

23 March 2011

Mr Peter Bucki  
Envestra  
10th Floor, 81 Flinders Street  
ADELAIDE SA 5000

Dear Peter

**REPORT TO ENVESTRA IN CONNECTION WITH VALIDATION OF CUSTOMER  
RECLASSIFICATION METHODOLOGY**

At the request of Envestra we have performed the Agreed-Upon Procedures as detailed in the written instructions of 11 March 2011 and described below with respect to the validation of the customer reclassification methodology applied to your Queensland billing data, in connection with your access arrangement proposal to the Australian Energy Regulator for the period 1 July 2011 to 30 June 2016.

Our engagement was undertaken in accordance with the Australian Auditing Standard applicable to agreed-upon procedures, *AUS 902 - Engagements to Perform Agreed-upon Procedures*. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of Envestra.

The agreed-upon procedures performed were as follows:

- Review and establish procedures to be undertaken
- Analysis and assessment of existing documentation, billing system data for the last five financial years, and models
- Consider the "in-scope" rules applied to the billing system data for customer reclassification
- Report on the existing model structure, validation of customer data aggregation and the application of reclassification rulings

Because the above procedures do not constitute either an audit in accordance with the Australian Auditing Standards or a review made in accordance with the Australian Auditing Standards on Review Engagements, we do not express any opinion.

Had we performed additional procedures or had we performed an assurance engagement in terms of the Standards referred to in the preceding paragraph, other matters might have come to our attention that would have been reported to you.

We have been informed by Envestra that the information provided to us is used in the annual tariff adjustment process. Except as otherwise noted in this report, we have not performed any testing on the information provided to confirm its completeness and accuracy.

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## FINDINGS

We report our findings as follows:

### 2007/08, 2008/09, 2009/2010

The following is a summary of the billing system data provided by Envestra to PKF for respective MIRNs (Meter Installation Registration Number) for the following three years:

DISTRICT	2007/08	2008/09	2009/10
Total Reads	339,683	351,209	361,123
Total MIRNs	79,906	81,987	84,098
Max Reads per MIREN	17	15	15
Average reads per MIREN	4.25	4.28	4.29

The data provided for each individual read included but was not limited to:

- MIREN
- MIREN original classification type (Residential, Commercial or Industrial)
- Consumption in Gigajoules (GJ) per read
- Number of day per read
- Average daily consumption in GJ for each read period

A list of all MIRNs identified by Envestra as being BHW (Bulk Hot Water) was also provided.

Envestra have indicated that the following three rules had been applied to reclassify the billing system data provided to PKF:

1. All MIRNs identified as both Residential and Bulk Hot Water were reclassified as Commercial;
2. All MIRNs identified as Residential with an average daily consumption greater than 0.274GJ/day for any one read period were reclassified as Commercial; and
3. All MIRNs originating as either Commercial or Industrial remain unchanged.

Envestra have indicated that the results of them applying these three rules to the billing system data were as follows:

Original Classification	Reclassification	2007/08 MIRNs	2008/09 MIRNs	2009/10 MIRNs
C	C	2604	2608	2597
I	C	2	2	2
I	I	281	280	305
R	C	1455	1492	1570
R	R	75564	77605	79624
	Total	79,906	81,987	84,098

Note: C = Commercial, I = Industrial, R = Residential



We understand of the data provided that average daily consumption for any one reading is based on the total consumption for a single read period divided by the number of days within the same read period. (Eg. 2.377 GJ / 90 days = 0.0264 GJ per day)

PKF undertook procedures for each of the billing system data sets provided to independently confirm the reclassification as per Envestra, as follows:

1. All residential MIRNs were identified as being BHW, based on a list of all BHW MIRNs provided, and reclassified as commercial.
2. MIRNs for each data set were aggregated to identify the highest average daily consumption of any one read period of each MIRN.
3. All remaining MIRNs classified as residential with a maximum average daily consumption greater than 0.274GJ for any one read period were reclassified as commercial.

Based on the results of our procedures, we note that Envestra has reclassified two MIRNs previously classified as industrial, as commercial. This minor exception is contrary to rule 3 above. No other exceptions were identified.

#### **2005/06, 2006/07**

The following is a summary of the billing system data provided by Envestra for each corresponding year:

Customer Type	2005/06	2006/07
<b>Number of Records</b>	1,165	1,234
<b>Total Consumption (GJ)</b>	1,917,225	1,884,503
<b>Total Days</b>	27,204,756	27,529,227

Each individual record is an aggregate of readings based on a single District, Customer Type, and Block of GJ.

The data provided for each record included but was not limited to:

- District Name (Brisbane Metropolitan, Gladstone, Ipswich and Rockhampton)
- Customer Type (Domestic, Industrial and Commercial)
- Count of Meters
- Block GJ
- Sum of Consumption
- Sum of Days
- Average Consumption in GJ per day

Note additional records were provided for districts not included within the scope of this review, same were excluded.

Envestra have indicated that the following three rules had been applied to reclassify the billing system data provided to PKF:

1. All Domestic customer types with an average daily consumption greater than 0.247GJ/day are reclassified as Commercial. As a consequence the total for each of consumption and days for:
  - a. Domestic is limited to those with an average daily consumption of less than or equal to 0.247GJ/day
  - b. Commercial is increased.
2. All customer types originating as either Commercial or Industrial remain unchanged.

In applying the preceding rules to the billing system data the following results were provided by Envestra for each of total consumption and total days:

#### Consumption

Original Classification	Reclassification	2005/06 GJ	2006/07 GJ
C	C	684,550	718,699
I	I	567,416	528,681
D	C	26,771	25,109
D	D	638,489	612,014
	<b>Total</b>	<b>1,917,226</b>	<b>1,884,503</b>

#### Days

Original Classification	Reclassification	2005/06	2006/07
C	C	1,670,371	1,681,123
I	I	76,632	76,257
D	C	22,096	22,727
D	D	25,435,657	25,749,120
	<b>Total</b>	<b>27,204,756</b>	<b>27,529,227</b>

Note: C = Commercial, I = Industrial, D = Domestic

We understand of the data provided:

- Average daily consumption for each record is based on an aggregate of readings which correspond to a specific district, customer type and block of GJ. The aggregate is applied to consumption which is divided by the aggregate of corresponding total days to achieve the average daily consumption for the corresponding aggregated group.
- Alternating between summary results pre and post reclassification of domestic customer types is based on a check box located on the 'Summary' sheet.

PKF undertook procedures for each of the billing system data sets provided to independently confirm the reclassification as per Envestra, as follows:

1. All records for districts other than Brisbane Metropolitan, Gladstone, Ipswich and Rockhampton were excluded.
2. Total consumption and total days for each original customer type were calculated and checked against the summary data provided by Envestra.
3. All records identified as domestic and having an average daily consumption greater than 0.274 GJ per day were reclassified as Commercial.
4. Total consumption and days for each customer group were recalculated based on the revised reclassification of domestic to commercial and cross referenced against the reclassification totals provided by Envestra.

Based on the results of our procedures, no exceptions were identified.

Our report is solely for the purpose set out in the first paragraph of this report and for your information, and that of the Australian Energy Regulator and is not to be used for any other purpose or to be distributed to any other parties.

Yours sincerely,



**G K Edwards**

Partner

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