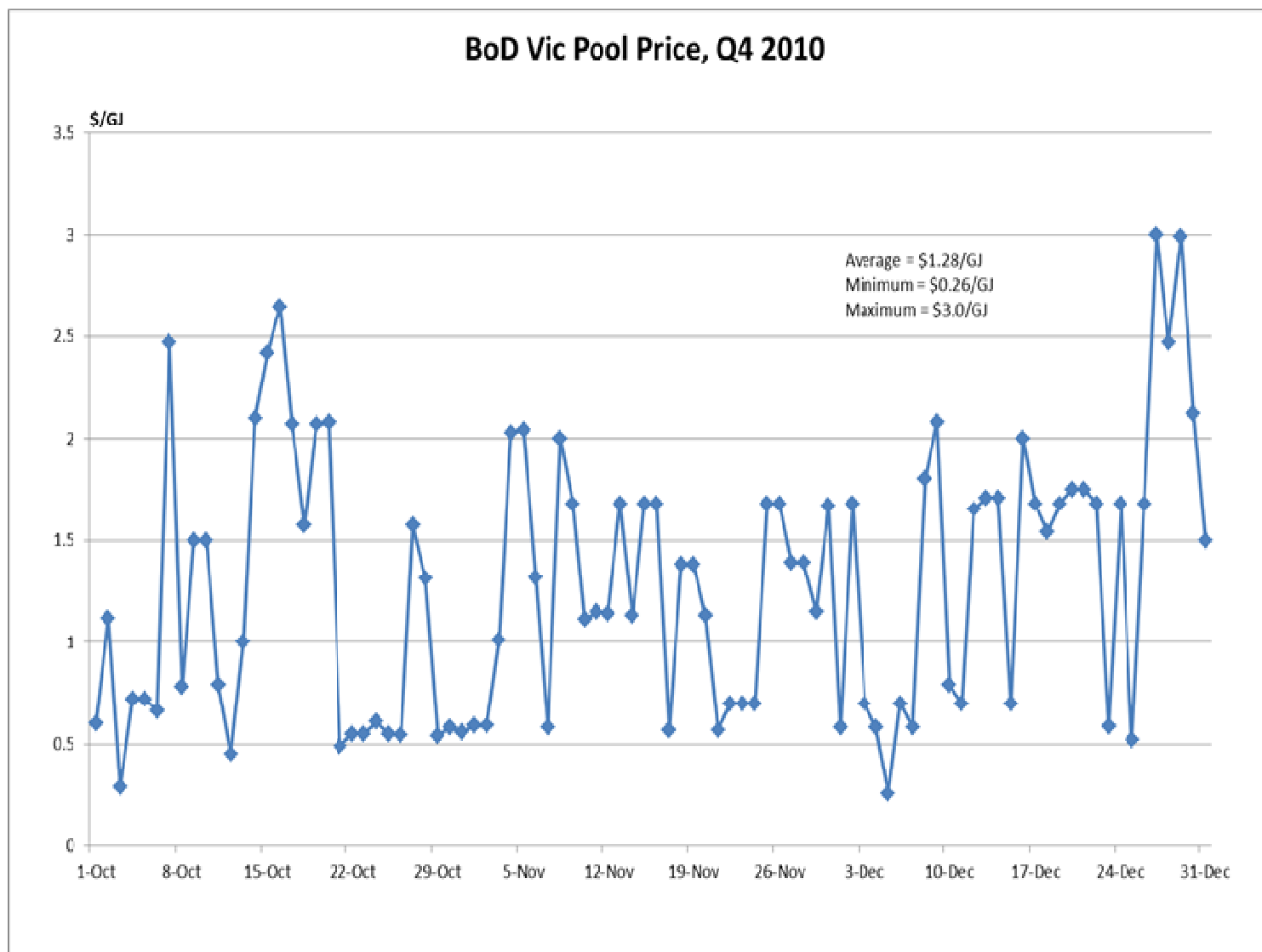

Unintended Scheduling Result DRP Hearing – 17 February 2011



Intrinsic Value of Unscheduled Gas

- The unscheduled volume of gas was injected in Q4. Actual historical values are now available and using the average Beginning of Day (BoD) spot price for Q4 reveals a figure of \$1.28/GJ. The minimum and the maximum were \$0.26/GJ and \$3/GJ, respectively.
- SE submits that an average spot price is not in itself a good proxy to determine the intrinsic value of gas because, by definition, the unscheduled gas is being injected into the market when there is no demand for it resulting in a lower gas price. SE submits that a better estimate for the intrinsic value of gas is actually lower than the average spot price.

Beginning of Day Victoria Gas Spot Prices- Q4 2010



Application of Rule 217(4)(a) and (5)

- \$20,000 threshold under Rule 217(4)(a) is adjusted under Rule 217(5) by applying CPI_n / CPI_o , where:

CPI_o is the Consumer Price Index number (All Groups, weighted average of eight capital cities) published by the Australian Bureau of Statistics for the financial year ended 30 June 2008, being 161.4; and

CPI_n is the Consumer Price Index number (All Groups, weighted average of eight capital cities) for the most recent financial year published by the Australian Bureau of Statistics before the issue of the relevant operating schedule, being 166.4 (source: ABS – see below)

1 ALL GROUPS, Index numbers(a)

Period	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Weighted average of eight capital cities
2006-07	156.2	154.2	158.3	159.2	156.1	155.7	152.9	156.4	156.1
2007-08	160.9	159.6	164.8	164.4	161.7	160.3	158.3	162.0	161.4
2008-09	165.8	164.1	171.0	169.7	166.6	164.9	163.6	167.5	166.4
2009-10	169.7	167.5	175.5	173.4	170.8	169.3	168.7	171.1	170.3

- Accordingly, threshold equals: $\$20,000 \times (166.4 / 161.4) = \underline{\underline{\$20,619.58}}$
- Using Q4 BoD average price of \$1.28/GJ (as an example):
 - Intrinsic value of 3.448TJ unscheduled gas = \$4,413.44
 - “Estimated financial effect” of USR on Simply Energy: $\$26,033 - \$4,413 = \underline{\underline{\$21,620}}$